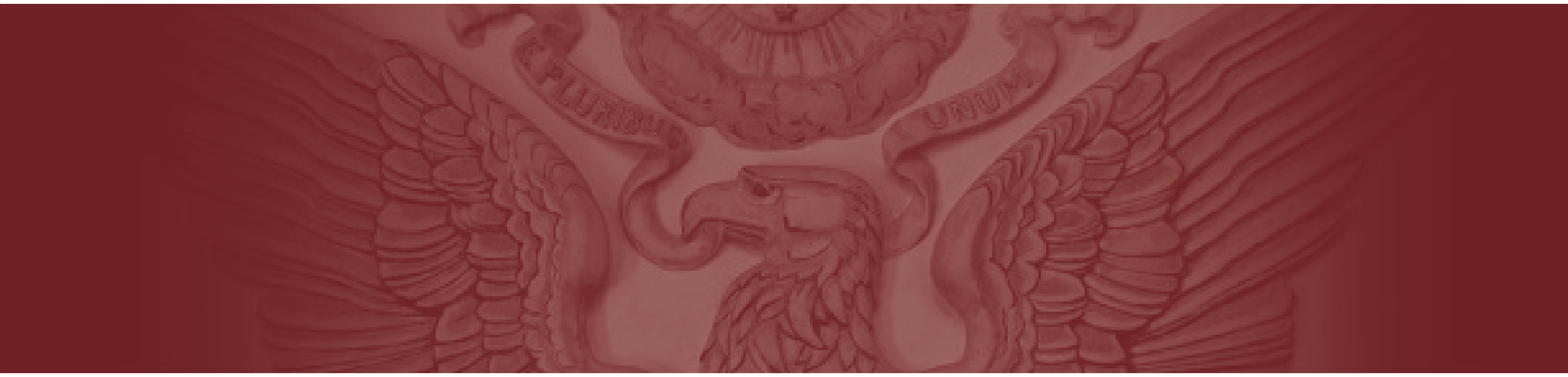


# Supervision and Regulation Report

November 2020

Board of Governors of the Federal Reserve System

# Supervision and Regulation Report

November 2020

Board of Governors of the Federal Reserve System

This and other Federal Reserve Board reports and publications are available online at
https://www.federalreserve.gov/publications/default.htm.

To order copies of Federal Reserve Board publications offered in print,
see the Board’s Publication Order Form (https://www.federalreserve.gov/files/orderform.pdf)
or contact:

Printing and Fulfillment
Mail Stop K1-120
Board of Governors of the Federal Reserve System
Washington, DC 20551
(ph) 202-452-3245
(fax) 202-728-5886
(email) Publications-BOG@frb.gov

# Preface

To enhance public transparency and heighten accountability, the Federal Reserve Board (Board) publishes periodic information about banking conditions and the Federal Reserve's supervisory and regulatory activities, typically in conjunction with testimony before Congress by the Vice Chair for Supervision.

The inaugural report was published in November 2018. This report focuses on the Federal Reserve's supervisory and regulatory response to the economic and financial stresses resulting from containment measures adopted in response to current public health concerns, referred to as the "COVID event."[1]

The report consists of three main sections, in addition to a summary of key developments and trends:

- **Banking System Conditions** provides an overview of current conditions in the banking sector based on data collected by the Federal Reserve and other federal financial regulatory agencies, as well as market indicators of industry conditions.
- **Regulatory Developments** provides an overview of the current areas of focus of the Federal Reserve's regulatory policy work, including proposed rules.
- **Supervisory Developments** provides information on supervisory programs and approaches in light of recent events. The report distinguishes between large financial institutions and community and regional banking organizations, as supervisory approaches and priorities for these institutions frequently differ.

[1] The term "COVID event" refers to the complex set of responses in both the private and public sectors to the outbreak of COVID-19.

# Contents

Summary ..... 1

Banking System Conditions ..... 3

Evolution of the COVID event ..... 3

A More Resilient Banking System Has Helped the Economy Weather the Initial Shock ..... 3

Conditions Have Stabilized, but Uncertainty Persists ..... 6

Regulatory Developments ..... 13

Supervisory Developments ..... 19

Overview ..... 19

Supervised Institutions ..... 21

Large Financial Institutions ..... 22

Community and Regional Banking Organizations ..... 28

Appendix A: Data Appendix ..... 35

Definition of Data Sources ..... 35

Notes on Specific Data ..... 36

Appendix B: Abbreviations ..... 39

# Summary

One of the principal functions of the Federal Reserve is to regulate and promote the safety, soundness, and efficiency of supervised financial institutions. The COVID event continues to present extraordinary challenges to both financial institutions and regulators, and has imposed widespread and significant damage on households, businesses, and the broader economy.

This report details how Federal Reserve banking regulation and supervision is responding to unprecedented challenges. Unlike 2008, banking organizations have been a source of strength, rather than strain, to the economy, entering the COVID event with substantial capital and liquidity and improved risk management and operational resiliency. In response to the COVID event, the Federal Reserve has made several adjustments to its regulation and supervision, many temporary, to reduce burden on banking organizations and help them meet the needs of their customers and communities.

The future course and timing of the economic recovery remain uncertain, and its pace and intensity are likely to vary across different areas of the country. The Federal Reserve will continue to ensure that its regulations, supervisory policies, and examination activities are effective and efficient. We remain committed to using our full range of tools to support the economy for as long as is needed.

# Banking System Conditions

## Evolution of the COVID event

As noted in the previous *Supervision and Regulation Report*, the COVID event caused acute stress in many parts of the financial system beginning in March 2020.[2] It induced a sharp decline in economic activity and an accompanying surge in unemployment. Since then, market conditions and investor risk sentiment have improved substantially, though issues continue to exist in various sectors. Some asset prices have largely recovered, in part because of strong and rapid policy responses. However, while recent economic data offer positive signs, output and employment remain far below their levels prior to the COVID event, and the path forward remains uncertain. Recovery hinges in large part on the evolution of public concern about the virus as well as on policy actions taken at all levels of government.

The COVID event differs from previous crises in at least one important way. Because the economic shock emerged outside of a banking system that was significantly more resilient as a result of reforms and measures taken by the banking industry following the 2008 crisis, the role of banking organizations in this crisis has been different—serving as shock absorbers for the real economy, rather than as amplifiers of stress. Programs undertaken by the Federal Reserve have helped to preserve the flow of credit, while policy measures have helped build a bridge from the solid economic foundation on which we entered the crisis to a position of potential economic strength on the other side.

## A More Resilient Banking System Has Helped the Economy Weather the Initial Shock

As the crisis broke, the benefits of a more resilient banking system were evident. Despite a great deal of turmoil in financial markets, the solvency of the banking system has not been in question. Banks have increased lending, absorbed a surge of deposits, and worked constructively with borrowers. They have also provided access to substantial lines of credit for corporate borrowers and played a significant role in supporting small businesses via the Paycheck Protection Program (PPP).

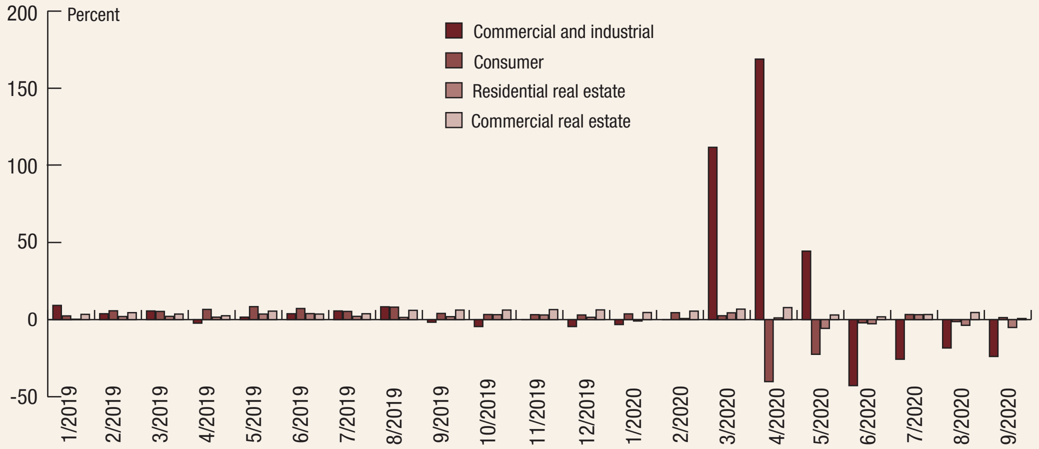
Banks also took a number of actions to maintain financial and operational resiliency. As a result, capital levels remain robust—indeed, they have actually increased during the COVID event—aided by timely policy response and capital preservation measures. Despite operational challenges, both banks and examiners have generally transitioned to a largely remote work environment without significant disruption to the provision of financial services. Bank branches have begun to reopen in line with local conditions and relevant guidelines.

### *Loan growth has moderated in recent months.*

Since the beginning of the year, bank loans have grown by slightly more than 4 percent, driven mainly by the PPP. After increasing through May, total loan growth turned negative in June. Growth rates for commercial and industrial (C&I) and consumer loans in particular saw significant declines (figure 1), driven principally by weak loan demand. Despite approxi-

[2] See Board of Governors of the Federal Reserve System, *Supervision and Regulation Report, May 2020,* (Washington: Board of Governors, May), https://www.federalreserve.gov/publications/2020-may-supervision-and-regulation-report.htm.

### Figure 1. Loan growth by sector (seasonally adjusted, annual rate)



Note: Growth rate is annualized month-over-month change, based on estimated weekly aggregate balance sheets for all commercial banks in the United States. Key identifies bars in order from left to right.

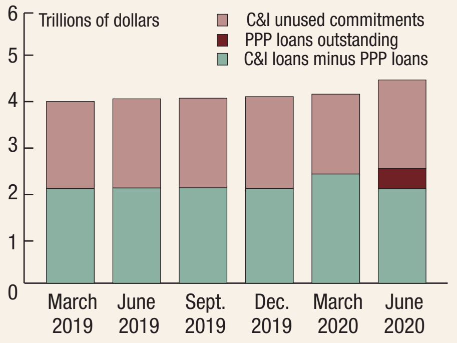
Source: H.8, "Assets and Liabilities of Commercial Banks in the United States."

mately $500 billion in PPP loans originated by banks between April and August, C&I lending slowed as commitment draws began to be repaid (figure 2). Consumer loan growth declined as consumers reduced spending. Along with lower loan demand, tighter lending standards and greater uncertainty also contributed to declines.

## *Capital positions remain strong.*

The aggregate common equity tier 1 (CET1) capital ratio recovered in the second quarter to around 12 percent, up from the first quarter and similar to the level at the end of 2019 (figure 3). Capital ratios rose slightly in the third quarter, based on preliminary reports from

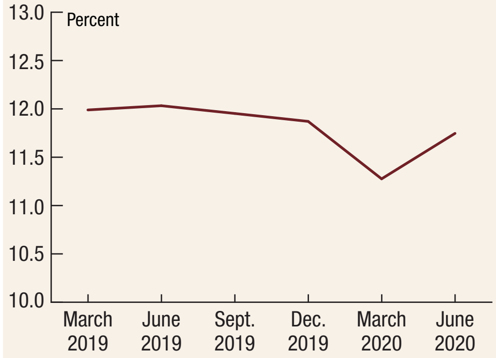
### Figure 2. Commercial and industrial (C&I) loans and unused commitments



Note: Assumes all PPP loans are C&I loans. Capping the institution-level PPP loan amount at the C&I loan amount would reduce total PPP loans by about $150 million. Key identifies bars in order from top to bottom.

Source: Call Report and FR Y-9C.

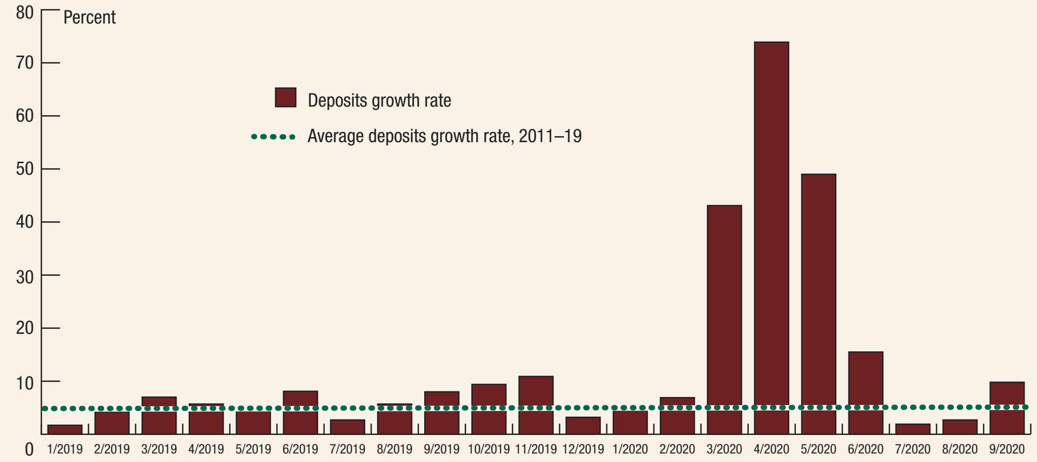
### Figure 3. Aggregate common equity tier 1 (CET1) capital ratio



Note: CET1 capital ratio is the ratio of common equity tier 1 capital to risk-weighted assets. See the data appendix for further information.

Source: Call Report and FR Y-9C.

Figure 4. Deposits growth (seasonally adjusted, annual rate)



Note: Growth rate is annualized month-over-month change, based on estimated weekly aggregate balance sheets for all commercial banks in the United States.

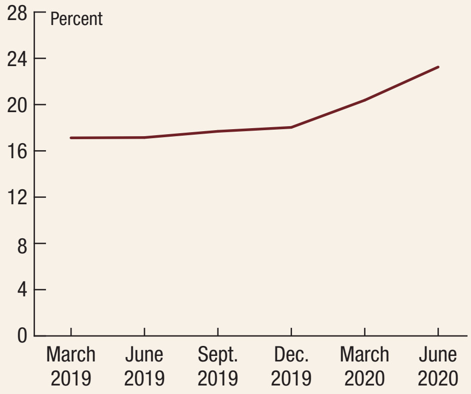
Source: H.8, "Assets and Liabilities of Commercial Banks in the United States."

large banks (see figure C, box 2 later in the report). Capital ratios remain well above regulatory requirements at nearly all banks, providing a buffer to support further lending. Recent regulatory changes, such as the transition period for the impact of the current expected credit losses (CECL) accounting standard, have also benefited capital ratios at some banks.[3]

## *Liquidity conditions remain strong.*

Bank deposits grew at extraordinary rates through June, as investors continued to favor safe assets and consumers increased savings (figure 4). Total deposits for all commercial banks increased by roughly $2.5 trillion between the end of 2019 and September 2020. Liquid assets as a share of total assets for the industry have risen noticeably this year (figure 5), with the majority of the increase occurring in the second quarter. Large banks have consistently remained above their liquidity coverage ratios throughout the COVID event.

Figure 5. Liquid assets as a share of total assets



Note: Liquid assets are cash plus estimates of securities that qualify as high-quality liquid assets (HQLA) as defined by the liquidity coverage ratio requirement. See the data appendix for further information.

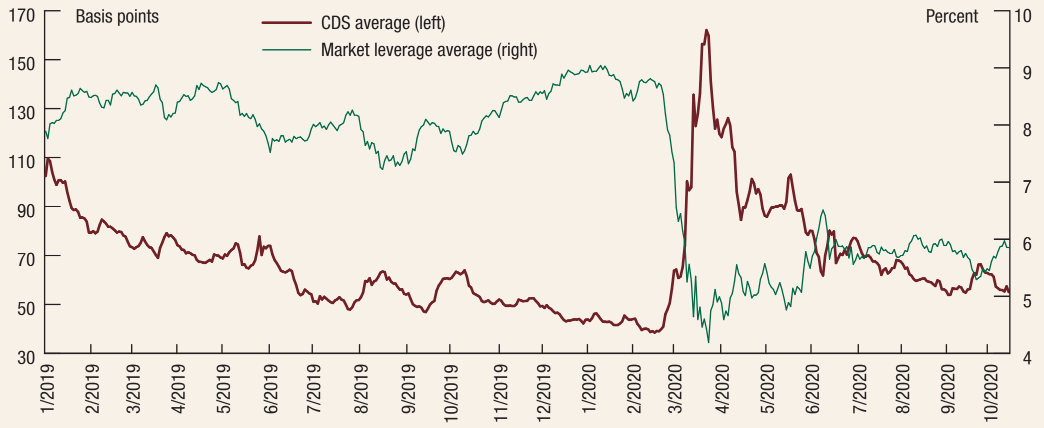
Source: FR Y-9C.

[3] The CECL transition provisions allowed firms to add back 40 basis points to the aggregate CET1 ratio through second quarter 2020.

### *Key market indicators reflect improved conditions.*

Current market-based indicators of bank health, including credit default swap (CDS) spreads and market leverage ratios, reflect stabilization in financial markets and demonstrate continued resilience of the banking system. Although both CDS spreads and market leverage ratios deteriorated sharply in the first quarter, they have not reached the extremes of the 2008 financial crisis. Both indicators began to recover in April and have generally shown improved or stable trends through the third quarter (figure 6).

**Figure 6. Average credit default swap (CDS) spread and market leverage ratio, 2019–20 (daily)**



Note: The market leverage ratio is the ratio of the firm's market capitalization to the sum of market capitalization and the book value of liabilities. Averages are calculated from available observations for the eight U.S. LISCC firms and three LISCC FBOs (U.S.: Bank of America Corporation; The Bank of New York Mellon Corporation; Citigroup Inc.; The Goldman Sachs Group; JPMorgan Chase & Co.; Morgan Stanley; State Street Corporation; and Wells Fargo & Company. FBO: Barclays PLC; Credit Suisse Group AG; and Deutsche Bank AG.)

Source: Bloomberg.

## Conditions Have Stabilized, but Uncertainty Persists

While economic activity has picked up and economic indicators have shown marked improvement since the second quarter, a high degree of uncertainty persists. Loan modifications and other policy measures make it challenging to accurately estimate potential loan losses, and macroeconomic uncertainty further complicates the analysis.

### *While measures of asset quality are relatively stable, recent loan modification activity may obscure credit quality issues.*

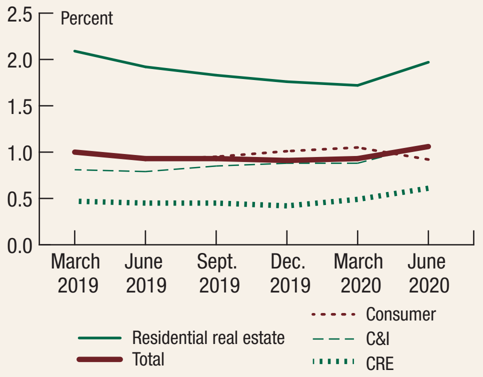
Banks have implemented loan modification programs consistent with section 4013 of the Coronavirus Aid, Relief, and Economic Security Act and have offered other accommodations to borrowers.[4] By changing the terms of a loan to make it more affordable, these programs

[4] Section 4013 of the CARES Act encourages financial institutions to work with borrowers whose ability to repay has been adversely impacted by COVID-19. Under section 4013, there is no limitation on the length of deferral periods or number of loan modifications that can be made during the applicable period. The Federal Reserve and the other federal banking agencies have also encouraged banks to work prudently with borrowers affected by COVID event containment measures. See "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)," news release, April 7, 2020, https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200407a1.pdf.

help borrowers deal with temporary economic hardship caused by the COVID event. As discussed in more detail later in this report, the use of these programs by borrowers is lending additional support to the economic recovery.

Historically, bank asset quality rises and falls with the state of the economy. However, current measures of asset quality, such as the ratio of nonperforming loans (NPL) to total loans and leases (the NPL ratio), remain stable, even though unemployment is at a high level. The overall NPL ratio remains near its pre-COVID-event level, rising only slightly to 1.1 percent in the second quarter from 0.9 percent at the end of 2019 (figure 7). The NPL ratio for consumer loans actually decreased by 0.1 percent over this period. NPL ratios for residential real estate, commercial real estate (CRE), and C&I loans each rose slightly in the first half of 2020.

**Figure 7. Nonperforming loan ratio**



Note: Nonperforming loan ratio is the ratio of loans 90 days or more delinquent and nonaccrual loans to total loans and leases.

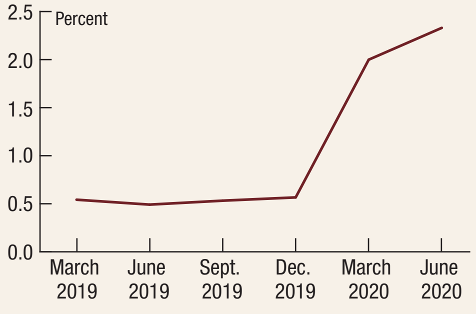
Source: Call Report and FR Y-9C.

The prevalence of loan modification programs may obscure credit quality issues, as a loan is typically not counted as "nonperforming" while it is covered by a loan modification program. When the deferral period under a loan modification program ends, many borrowers will be able to resume contractual payments; however, other borrowers may be unable to fully meet their obligations.[5] Banks will likely see an increase in nonperforming loans once deferral periods expire.

## *Higher provisions and reserves reflect concerns over potential credit losses.*

While the level of nonperforming loans remains low, banks have increased their loan loss reserves and tightened lending standards through the first half of the year in anticipation of a future rise in credit losses. Loan loss provisions as a share of average loans and leases rose sharply in the first quarter, as banks aggressively downgraded their economic forecasts. In the second quarter, as economic conditions stabilized, banks continued to increase provisions, albeit at a slower rate (figure 8). Higher reserves put banks in a stronger position to deal with any future deterioration in asset quality. As discussed in box 2 later in the report, large firms recorded

**Figure 8. Provisions to average loans and leases (annual rate)**



Source: Call Report and FR Y-9C.

[5] See SR Letter 20-18/CA 20-13 "Joint Statement on Additional Loan Accommodations Related to COVID-19" at https://www.federalreserve.gov/supervisionreg/srletters/SR2018.htm.

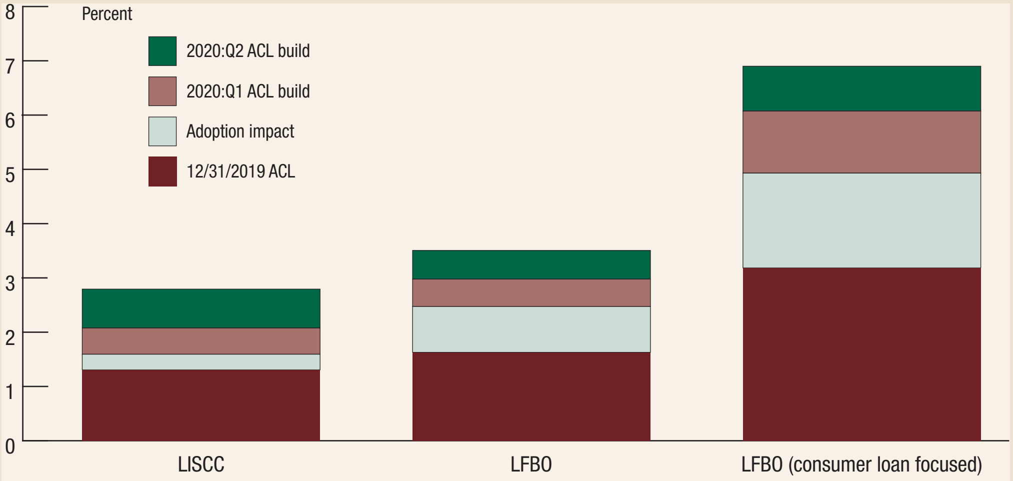
## Box 1. Reserving Practices and Trends at Firms Adopting CECL

In 2016, the Financial Accounting Standards Board (FASB) issued the current expected credit losses (CECL) methodology, a new standard that significantly revised accounting for credit losses.[1] Under CECL, the allowance for credit losses (ACL) measures a bank's lifetime expected credit losses, rather than merely near-term expected losses. To estimate those losses, institutions use a broader range of data than under the previous accounting standard. Data include information about past events, current conditions, and reasonable and supportable forecasts of future conditions. In sum, CECL requires a forward-looking approach to reserving.

Approximately 175 banking organizations adopted the CECL methodology in January 2020. As shown in figure A, those firms generally reported increases in reserves in 2020 because of the adoption of CECL at the beginning of the year and from increased reserves in both the first and second quarters. Increased reserves are not only related to the adoption of CECL, but also to rising expectations of credit risk and uncertainty in economic forecasts related to the COVID event. Increases generally occurred in both consumer and commercial loan portfolios. The most affected commercial loan sectors were oil and gas, auto, travel, and retail.

Banks have reported several challenges in implementing CECL during the COVID event. For example, the impact of government stimulus programs for consumers and businesses on credit risk is uncertain, especially as some stimulus programs are ending. In addition,

Figure A. Portfolio comparison ACL coverage ratio, 12/31/2019–6/30/2020



Note: ACL coverage ratio is ACL/loans. See the data appendix for further information on sampled firms. Key identifies bars in order from top to bottom.
Source: S&P Global Market Intelligence.

*(continued)*

[1] The CECL methodology is codified in FASB Accounting Standards Codification (ASC) Topic 326, Financial Instruments—Credit Losses.

## Box 1. Reserving Practices and Trends at Firms Adopting CECL *—continued*

loan modifications under the CARES Act or other modifications offered by financial institutions are challenging to reflect in CECL reserves. Finally, macroeconomic uncertainty and modeling uncertainty also pose challenges.

Federal Reserve supervisors will continue to conduct examinations of CECL implementation at large state member banks during the second half of 2020. Supervisors have focused on CECL modeling approaches, qualitative adjustments, and documentation of reserving practices. Supervisors will continue to monitor reserve levels, macroeconomic forecast assumptions, qualitative reserves, and reserve treatment for loans in loan modification programs.

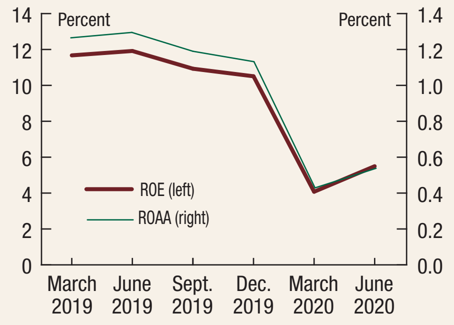
In light of the COVID event, the Board, along with the Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC), has provided firms with the option to mitigate the impact of CECL on regulatory capital for a transition period of up to five years.

declines in loss provisions in the third quarter, suggesting some confidence that the current levels of reserves can cover future deterioration in asset quality.

### *Profitability fell sharply in the first two quarters of 2020.*

Bank profitability, as measured by return on equity (ROE) and return on average assets (ROAA), fell sharply in the first quarter of 2020, driven by falling net interest income and elevated provision expenses across both corporate and consumer loans. ROE and ROAA both began to recover in the second quarter (figure 9) but have remained under pressure. Net interest margins also experienced large declines in the first half of 2020 because of lower interest rates and higher holdings of low-yield assets. Growth in trading and investment banking revenues and mortgage origination fees helped offset some of these declines. Banks participating in the PPP have reported interest and noninterest income attributable to PPP loans, which will continue to influence banks' earnings in coming quarters, particularly for community and regional banks.

**Figure 9. Bank profitability**



Note: ROE is net income/average equity capital, and ROAA is net income/average assets.

Source: Call Report and FR Y-9C.

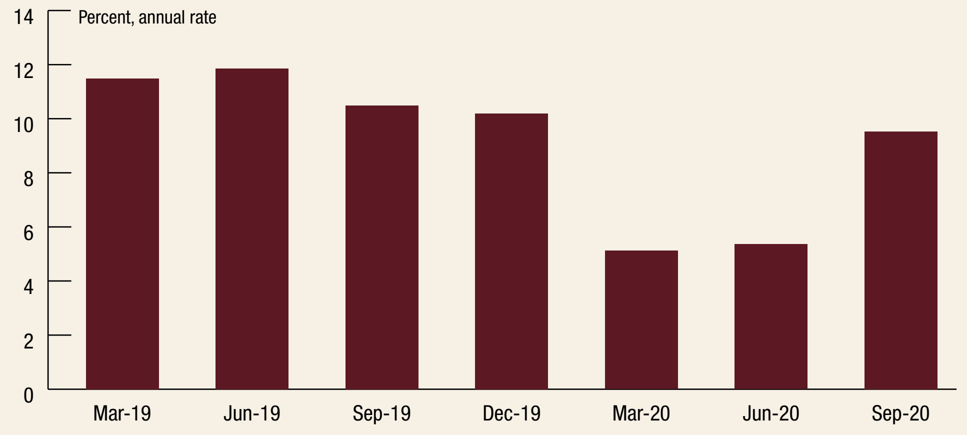
## Box 2. Third-Quarter Earnings at a Sample of Large Banks

This box provides a preliminary update on third-quarter banking sector conditions, based on early reporting by a sample of large banks that reported third-quarter earnings on or before October 16 (reporting banks).[1] While such trends are indicative, it should be noted that early reporters are not necessarily representative of the banking sector as a whole.

### Third-Quarter Earnings Improved Because of Lower Provisions

Preliminary third-quarter earnings data suggest large banks improved earnings relative to the first two quarters of 2020, predominantly because of lower loan loss provisions. Bank profitability, as measured by return on equity (ROE), increased from 5 percent in the first half of 2020 to 10 percent in the third quarter for the sample, nearing levels earned in the prior year period (figure A).

Figure A. Return on equity



Source: S&P Global Market Intelligence and earnings releases.

In the third quarter, the level of nonperforming loans rose modestly, and reporting banks limited additional increases in their loan loss reserves (figure B). Reporting banks generally expressed confidence that current reserve levels would be sufficient to deal with future deterioration in asset quality given the current economic outlook, but acknowledged that the path of the economic recovery and ultimate magnitude and timing of loan losses remain uncertain.

### Pressure on Net Revenue

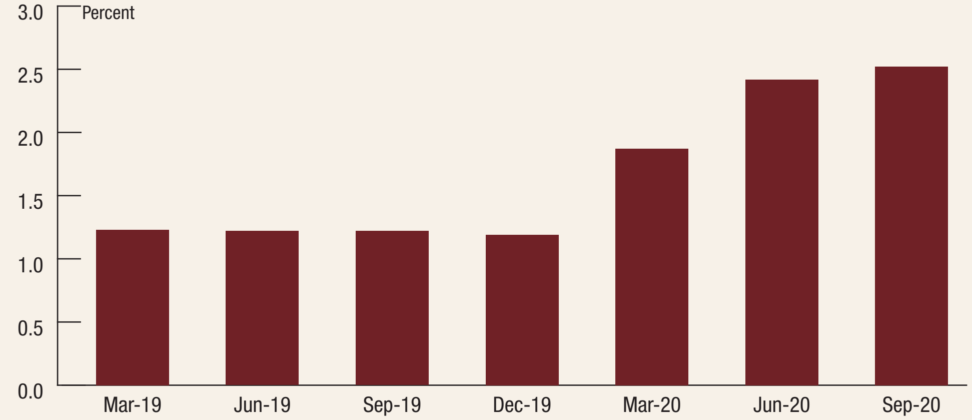
Net interest income declined 4 percent quarter-over-quarter. Declines in net interest income were due to lower interest rates and slowed loan growth, which turned negative quarter-over-quarter for the reporting banks. Noninterest income also declined on

*(continued)*

[1] Ally Financial Inc., Bank of America Corporation, The Bank of New York Mellon Corporation, Citigroup Inc., Citizens Financial Group, Inc., The Goldman Sachs Group, Inc., JPMorgan Chase & Co., Morgan Stanley, The PNC Financial Services Group, Inc., State Street Corporation, Truist Financial Corporation, U.S. Bancorp, and Wells Fargo & Company.

## Box 2. Third-Quarter Earnings at a Sample of Large Banks—*continued*

**Figure B. Loan loss reserves as a percent of average loans**



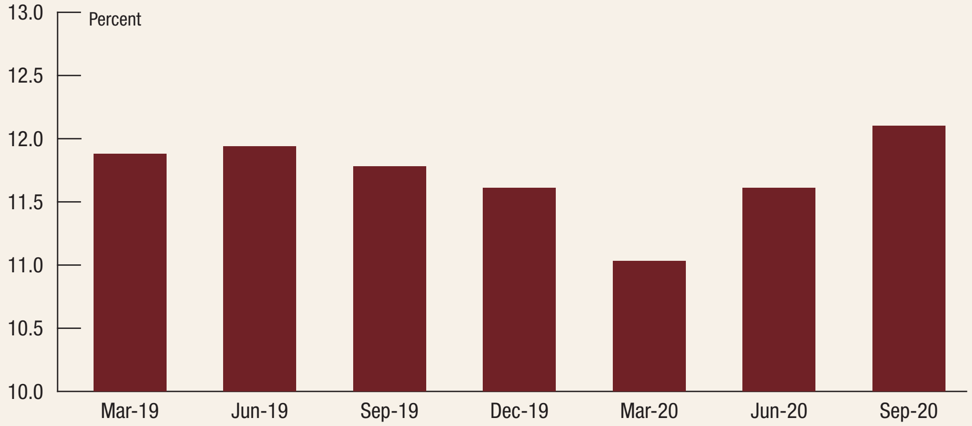
Note: See the data appendix for additional information.
Source: S&P Global Market Intelligence and earnings releases.

aggregate quarter-over-quarter (−10 percent), as sales and trading and investment banking earnings were strong but declined relative to the record-setting previous quarter.

### Improved Capital Ratios

During the quarter, reporting banks accreted common equity tier 1 (CET1) capital and improved their capital ratios (figure C). This continues the trend seen in the second quarter, as earnings offset dividends paid, and as banks continued suspensions of share repurchases. Declines in risk-weighted assets, driven in part by slower loan demand and tighter lending standards, also contributed to the rise in CET1 capital ratios. The aggregate CET1 ratio for the reporting banks ended the third quarter near 12 percent, above its level at the start of 2020.

**Figure C. CET1 ratio**



Source: S&P Global Market Intelligence and earnings releases.

# Regulatory Developments

The Federal Reserve continues to support the flow of credit to help underpin economic recovery. The *Supervision and Regulation Report, May 2020* summarized the numerous regulations and policy statements that were issued at the beginning of the COVID event. Since that time, the Federal Reserve has undertaken further COVID-related actions to support the flow of credit and liquidity and to ease operational burden for banking organizations. Some of these actions extended or expanded prior measures, including temporarily adjusting the supplementary leverage ratio requirements for depository institutions and continuing to support Federal Reserve credit facilities created during the COVID event. The Federal Reserve also completed regulatory and policy actions not related to the COVID event, detailed below (table 1).

While this report is focused on safety and soundness initiatives, it is also important to note that on September 21, 2020, the Board issued an Advance Notice of Proposed Rulemaking to modernize the regulations to implement the Community Reinvestment Act with a 120-day comment period.[6]

[6] See Board of Governors of the Federal Reserve System, "Federal Reserve Board Issues Advance Notice of Proposed Rulemaking on an Approach to Modernize Regulations That Implement the Community Reinvestment Act," news release, September 21, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200921a.htm.

**Table 1. Federal Reserve or interagency rulemakings/statements (proposed and final)**

**From 10/1/2019 to 10/30/2020**

***Entries in bold and italic indicate regulation or guidance related to the COVID event.***

| Date issued | Rule/guidance |
|---|---|
| 10/2/2019 | Agencies issue final rule to update management interlock rules.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191002a.htm |
| 10/8/2019 | Agencies finalize changes to simplify Volcker rule proprietary trading regulations.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191008a.htm |
| 10/10/2019 | Federal Reserve Board finalizes rules that tailor its regulations for domestic and foreign banks to more closely match their risk profiles.<br>Federal Reserve Board press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191010a.htm |
| 10/17/2019 | Federal Reserve Board releases results of survey of senior financial officers at banks about their strategies and practices for managing reserve balances.<br>Federal Reserve Board press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/other20191017a.htm |
| 10/18/2019 | FDIC and Federal Reserve request information on use and impact of CAMELS ratings.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191018a.htm |
| 10/28/2019 | Agencies propose rule to amend swap margin rules.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191028a.htm |

*(continued)*

**Table 1.**—*continued*

| Date issued | Rule/guidance |
|---|---|
| 10/28/2019 | Agencies finalize changes to resolution plan requirements; revises requirements consistent with the tailoring rule—keeping the most stringent requirements for largest firms and reducing requirements for smaller firms.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191028b.htm |
| 10/29/2019 | Federal bank regulatory agencies issue final rule to simplify capital calculation for community banks by adopting a community bank leverage ratio option.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191029a.htm |
| 11/8/2019 | Federal Reserve Board invites public comment on proposal to extend by 18 months initial compliance dates for foreign banks subject to its single-counterparty credit limit rule.<br>Federal Reserve Board press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191108a.htm |
| 11/19/2019 | Agencies finalize changes to supplementary leverage ratio as required by Economic Growth, Regulatory Relief, and Consumer Protection Act.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191119a.htm |
| 11/19/2019 | Federal bank regulatory agencies issue final rule on treatment of high volatility commercial real estate.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191119b.htm |
| 11/19/2019 | Federal bank regulatory agencies finalize rule to update calculation of counterparty credit risk for derivatives contracts.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191119c.htm |
| 12/3/2019 | Agencies clarify requirements for providing financial services to hemp-related businesses.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191203a.htm |
| 12/12/2019 | Federal Reserve Board announces annual adjustment to the asset-size threshold in Regulation I regarding dividend rate paid to member banks.<br>Federal Reserve Board press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191212a.htm |
| 12/13/2019 | Federal Reserve Board announces it will extend until January 22, 2020, comment period for its proposal to establish risk-based capital requirements for certain insurance companies supervised by the Board.<br>Federal Reserve Board press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191213a.htm |
| 12/17/2019 | Agencies find no deficiencies in resolution plans from the largest banks; find shortcomings for several firms.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191217a.htm |
| 1/30/2020 | Federal Reserve Board finalizes rule to simplify and increase the transparency of the Board's rules for determining control of a banking organization.<br>Federal Reserve Board press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200130a.htm |
| 1/30/2020 | Agencies propose changes to modify Volcker rule "covered funds" restrictions.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200130b.htm |
| 3/4/2020 | Federal Reserve Board approves rule to simplify its capital rules for large banks, preserving the strong capital requirements already in place.<br>Federal Reserve Board press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200304a.htm |
| 3/6/2020 | Agencies invite comment on updates to resolution plan guidance for large foreign banks.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200306b.htm |

*(continued)*

**Table 1.—*continued***

| Date issued | Rule/guidance |
|---|---|
| ***3/9/2020*** | ***Agencies encourage financial institutions to meet financial needs of customers and members affected by coronavirus.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200309a.htm*** |
| ***3/10/2020*** | ***SR 20-3 / CA 20-2 Interagency Statement on Pandemic Planning:***<br>***https://www.federalreserve.gov/supervisionreg/srletters/SR2003.htm*** |
| ***3/13/2020*** | ***SR 20-4 / CA 20-3 Supervisory Practices Regarding Financial Institutions Affected by Coronavirus:***<br>***https://www.federalreserve.gov/supervisionreg/srletters/SR2004.htm*** |
| ***3/22/2020*** | ***Agencies provide additional information to encourage financial institutions to work with borrowers affected by COVID-19.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200322a.htm*** |
| ***3/24/2020*** | ***Federal Reserve provides additional information to financial institutions on how its supervisory approach is adjusting in light of the coronavirus.***<br>***Federal Reserve Board press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200324a.htm*** |
| ***3/25/2020*** | ***The Federal Financial Institutions Examination Council (FFIEC) on behalf of its members issued a statement highlighting coordination and collaboration of efforts to address COVID-19.***<br>***FFIEC press release:***<br>***https://www.ffiec.gov/press/pr032520.htm*** |
| ***3/26/2020*** | ***Federal agencies encourage banks, savings associations and credit unions to offer responsible small-dollar loans to consumers and small businesses affected by COVID-19***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200326a.htm*** |
| ***3/30/2020<br>&<br>4/2/2020*** | ***SR 20-8 Joint Statement on Adjustment to the Calculation for Credit Concentration Ratios Used in the Supervisory Approach:***<br>***https://www.federalreserve.gov/supervisionreg/srletters/SR2008.htm*** |
| ***4/6/2020*** | ***Agencies announce changes to the community bank leverage ratio.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200406a.htm*** |
| ***4/6/2020*** | **SR 20-10 Small Business Administration (SBA) and Treasury Small Business Loan Programs:**<br>**https://www.federalreserve.gov/supervisionreg/srletters/SR2010.htm** |
| ***4/7/2020*** | ***Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised).***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200407a.htm*** |
| 4/15/2020 | SR 20-11 Release of Updated Sections of the Federal Financial Institutions Examination Council's Bank Secrecy Act/Anti-Money Laundering Examination Manual:<br>https://www.federalreserve.gov/supervisionreg/srletters/SR2011.htm |
| ***4/17/2020*** | ***Federal Reserve adopts a change in Regulation O to temporarily modify the Board's rules so that certain bank directors and shareholders can apply to their banks for a Small Business Administration's Paycheck Protection Program loan.***<br>***Federal Reserve Board press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200417a.htm*** |
| ***4/27/2020*** | ***Agencies extend comment period on updates to resolution plan guidance for large foreign banks.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200427a.htm*** |
| 4/30/2020 | The FFIEC on behalf of its members issued a statement to address the use of cloud computing services and security risk management principles in the financial services sector.<br>FFIEC press release:<br>https://www.ffiec.gov/press/pr043020.htm |

*(continued)*

**Table 1.**—*continued*

| Date issued | Rule/guidance |
|---|---|
| ***5/1/2020*** | ***Federal Reserve Board finalizes rule to extend by 18 months the initial compliance dates for certain parts of its single-counterparty credit limit rule.***<br>***Federal Reserve Board press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200501a.htm*** |
| ***5/5/2020*** | ***Federal bank regulatory agencies modified the liquidity coverage ratio for banks participating in Money Market Mutual Fund Liquidity Facility and Paycheck Protection Program Liquidity Facility.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200505a.htm*** |
| ***5/8/2020*** | ***Federal financial regulatory agencies issue interagency policy statement on allowances for credit losses and interagency guidance on credit risk review systems.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200508a.htm*** |
| 5/8/2020 | SR 20-12 Interagency Policy Statement on Allowances for Credit Losses:<br>https://www.federalreserve.gov/supervisionreg/srletters/SR2012.htm |
| 5/8/2020 | SR 20-13 Interagency Guidance on Credit Risk Review Systems:<br>https://www.federalreserve.gov/supervisionreg/srletters/SR2013.htm |
| ***5/15/2020*** | ***Regulators temporarily change the supplementary leverage ratio to increase banking organizations' ability to support credit to households and businesses in light of the coronavirus response.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200515a.htm*** |
| ***5/20/2020*** | ***Federal agencies share principles for offering responsible small-dollar loans, including during periods of economic stress, natural disasters, or other extraordinary circumstances such as the public health emergency created by COVID-19.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200520a.htm*** |
| ***6/15/2020*** | ***Federal Reserve Board resumes examination activities for all banks, after previously announcing a reduced focus on exam activity in light of the coronavirus response.***<br>***Federal Reserve Board press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200615a.htm*** |
| ***6/23/2020*** | ***Federal and state regulatory agencies issue examiner guidance for assessing safety and soundness considering the effect of the COVID-19 pandemic on financial institutions.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200623a.htm*** |
| ***6/23/2020*** | ***SR 20-15 Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions:***<br>***https://www.federalreserve.gov/supervisionreg/srletters/sr2015.htm*** |
| 6/24/2020 | SR 20-16 Supervision of De Novo State Member Banks:<br>https://www.federalreserve.gov/supervisionreg/srletters/SR2016.htm |
| 6/25/2020 | Financial regulators modify provisions of Volcker rule related to "covered funds."<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200625a.htm |
| 6/25/2020 | Agencies finalize amendments to swap margin rule.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200625b.htm |
| 7/1/2020 | Agencies provide largest firms with information for next resolution plans.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200701a.htm |
| 7/1/2020 | Financial regulators issue statement on managing the LIBOR transition.<br>FFIEC press release:<br>https://www.ffiec.gov/press/pr070120.htm |

*(continued)*

**Table 1.—*continued***

| Date issued | Rule/guidance |
|---|---|
| ***7/15/2020*** | ***Federal Reserve extends a change in Regulation O to temporarily modify the Board's rules so that certain bank directors and shareholders can apply to their banks for a Small Business Administration's Paycheck Protection Program loan.***<br>***Federal Reserve Board press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200715a.htm*** |
| ***8/3/2020*** | ***SR 20-18 / CA 20-13 Joint Statement on Additional Loan Accommodations Related to COVID-19:***<br>***https://www.federalreserve.gov/supervisionreg/srletters/SR2018.htm*** |
| 8/21/2020 | SR 20-21 Joint Statement on Bank Secrecy Act Due Diligence Requirements for Customers Who May Be Considered Politically Exposed Persons:<br>https://www.federalreserve.gov/supervisionreg/srletters/SR2021.htm |
| ***8/26/2020*** | ***Agencies issue three final rules:***<br>• ***a final rule that temporarily modifies the community bank leverage ratio, as required by the CARES Act;***<br>• ***a final rule that makes more gradual, as intended, the automatic restrictions on distributions if a banking organization's capital levels decline below certain levels; and***<br>• ***a final rule that allows institutions that adopt the current expected credit losses, or "CECL," accounting standard in 2020 to mitigate the estimated effects of CECL on regulatory capital for two years.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200826a.htm*** |
| 9/1/2020 | Federal and state financial regulatory agencies issue interagency statement on supervisory practices regarding financial institutions affected by Hurricane Laura and California wildfires.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200901b.htm |
| 9/21/2020 | The Federal Reserve Board issued an Advance Notice of Proposed Rulemaking to modernize the regulations to implement the Community Reinvestment Act.<br>Federal Reserve Board press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200921a.htm |
| ***9/29/2020*** | ***Agencies issue two final rules:***<br>• ***a final rule that temporarily defers appraisal and evaluation requirements for up to 120 days after the closing of certain residential and commercial real estate transactions;***<br>• ***a final rule that neutralizes—because of the lack of credit and market risk—the regulatory capital and liquidity effects for banks that participate in certain Federal Reserve liquidity facilities.***<br>***Interagency press release:***<br>***https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200929a.htm*** |
| 9/30/2020 | Federal Reserve Board invites public comment on proposal to update the Board's capital planning requirements to be consistent with other Board rules that were recently modified.<br>Federal Reserve Board press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200930a.htm |
| 10/9/2020 | SR 20-22 ISDA IBOR Fallback Protocol and IBOR Fallback Supplement:<br>https://www.federalreserve.gov/supervisionreg/srletters/SR2022.htm |
| 10/9/2020 | SR 20-23 Interagency Order Granting an Exemption from Customer Identification Program Requirements for Loans Extended by Banks and Their Subsidiaries to All Customers to Facilitate Purchases of Property and Casualty Insurance Policies:<br>https://www.federalreserve.gov/supervisionreg/srletters/SR2023.htm |
| 10/20/2020 | The federal banking agencies issued a final rule to strengthen resilience of large banks by requiring them to maintain a minimum level of stable funding over a one-year period.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201020b.htm |
| 10/20/2020 | The federal banking agencies finalized a rule to limit the interconnectedness and reduce the impact from failure of the largest banking organizations.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201020a.htm |
| 10/23/2020 | The Federal Reserve Board and the Financial Crimes Enforcement Network (FinCEN) issued for public comment a proposed rule that would amend the recordkeeping and travel rule regulations under the Bank Secrecy Act.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201023a.htm |

*(continued)*

**Table 1.—*continued***

| Date issued | Rule/guidance |
|---|---|
| 10/29/2020 | Agencies propose regulation on the role of supervisory guidance.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201029a.htm |
| 10/30/2020 | Agencies release paper on operational resilience.<br>Interagency press release:<br>https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201030a.htm |

# Supervisory Developments

## Overview

This section provides an overview of key developments related to the Federal Reserve's prudential supervision of financial institutions, including large financial institutions (known as LISCC firms and LFBO firms) as well as community and regional banking organizations (known as CBOs and RBOs). Table 2 provides an overview of the organizations supervised by the Federal Reserve, by portfolio, including the number of institutions and total assets in each portfolio.

**Table 2. Summary of organizations supervised by the Federal Reserve (as of 2020:Q2)**

| Portfolio | Definition | Number of institutions | Total assets ($trillions) |
|---|---|---|---|
| **Large Institution Supervision Coordinating Committee (LISCC)** | Eight U.S. global systematically important banks (G-SIBs) and three foreign banking organizations | 11 | 13.8 |
| State member banks (SMBs) | SMBs within LISCC organizations | 5 | 1.0 |
| **Large and foreign banking organizations (LFBOs)** | Non-LISCC U.S. firms with total assets $100 billion and greater and non-LISCC FBOs | 175 | 8.5 |
| Large banking organizations (LBOs) | Non-LISCC U.S. firms with total assets $100 billion and greater | 16 | 4.0 |
| Large FBOs | Non-LISCC FBOs with combined U.S. assets $100 billion and greater | 15 | 3.3 |
| Small FBOs | FBOs with combined U.S. assets less than $100 billion | 144 | 1.1 |
| State member banks | SMBs within LFBO organizations | 8 | 1.0 |
| **Regional banking organizations (RBOs)** | Total assets between $10 billion and $100 billion | 88 | 2.5 |
| State member banks | SMBs within RBO organizations | 40 | 0.8 |
| **Community banking organizations (CBOs)** | Total assets less than $10 billion | 3,734* | 2.7 |
| State member banks | SMBs within CBO organizations | 685 | 0.5 |
| **Insurance and commercial savings and loan holding companies (SLHCs)** | SLHCs primarily engaged in insurance or commercial activities | 8 insurance<br>4 commercial | 1.1 |

* Includes 3,673 holding companies and 61 state member banks that do not have holding companies.

Source: Call Report, FFIEC 002, FR 2320, FR Y-7Q, FR Y-9C, FR Y-9SP, and S&P Global Market Intelligence.

The Federal Reserve also has responsibility for certain laws and regulations relating to consumer protection and community reinvestment. The scope of the Federal Reserve's supervisory jurisdiction varies based on the particular law or regulation and on the asset size of the state member bank. Consumer-focused supervisory work is designed to promote a fair and transparent financial services marketplace and to ensure that the financial institutions under the Federal Reserve's jurisdiction comply with applicable federal consumer protection laws and regulations.

More information about the Federal Reserve's consumer-focused supervisory program can be found in the Federal Reserve's 106th *Annual Report 2019*.[7] The Federal Reserve also publishes the *Consumer Compliance Supervision Bulletin*, which shares information about examiners' supervisory observations and other noteworthy developments related to consumer protection.[8]

## *Federal Reserve supervision responded quickly to the current crisis.*

The Federal Reserve promotes a safe, sound, and efficient banking system and a fair and transparent consumer financial services marketplace that supports the growth and financial stability of the U.S. economy. In response to the disruptions posed by the COVID event, Federal Reserve supervisors have focused on ensuring that financial institutions can meet the challenges faced by their customers and local communities.

In June 2020, the Federal Reserve, along with the FDIC, OCC, National Credit Union Administration, and Conference of State Bank Supervisors, issued guidance to promote consistency in the supervision and examination of financial institutions affected by the COVID event.[9] The interagency guidance acknowledges that the stresses caused by the COVID event can affect a bank's financial condition and operational capabilities, even when the bank has appropriate governance and risk-management systems in place. The guidance instructs safety and soundness examiners to consider the unique, evolving, and potentially long-term nature of the issues confronting institutions and to exercise appropriate flexibility in their supervisory response. In assessing the safety and soundness of an institution, examiners will consider the institution's asset size, complexity, and risk profile, as well as the industry and business focus of its customers.

## *The Federal Reserve has resumed examinations following a pause.*

Examination activities help the Federal Reserve understand the safety and soundness of each institution and assess its compliance with applicable laws and regulations, including those related to consumer protection.

At the start of the COVID event, the Federal Reserve temporarily adjusted its supervisory approach. From late-March to mid-June, examiners focused on monitoring and reduced examination activities, with the greatest reduction occurring at the smallest banks. The Federal Reserve's supervisory approach gave firms time to adapt to the COVID event and provide customers with needed assistance. Financial institutions implemented contingency operating plans and adapted operations to the new environment. In June, examination activities resumed for all firms. All examination activities, including full scope examinations, will be conducted off-site until local conditions improve to facilitate on-site examinations.

The Federal Reserve recognizes that the current situation significantly affects institutions and communities in different ways and will work with financial institutions to understand specific issues as it engages in supervisory activities. Financial institutions supervised by the Federal

[7] See 106th *Annual Report 2019*, section 5, "Consumer and Community Affairs," at https://www.federalreserve.gov/publications/annual-report.htm.

[8] See the *Consumer Compliance Supervision Bulletin*, December 2019 at https://www.federalreserve.gov/publications/2019-december-consumer-compliance-supervision-bulletin.htm.

[9] SR Letter 20-15, "Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions," https://www.federalreserve.gov/supervisionreg/srletters/sr2015.htm.

Reserve should work directly with their Reserve Bank and state banking agencies, as applicable, if they have questions on planned supervisory activities.

## Supervised Institutions

The Federal Reserve follows a risk-focused approach by scaling its supervisory work to the size and complexity of an institution. In supervising financial institutions, a risk-focused approach to supervision is more efficient and results in more rigorous oversight of firms that pose increased risk to the financial system.

Firms identified as posing elevated risk to U.S. financial stability are supervised by the Large Institution Supervision Coordinating Committee, or LISCC, program. The LISCC program is a national program that uses both cross-firm (horizontal) and firm-specific supervisory activities to assess the financial resiliency and risk-management practices of firms. The list of firms in the LISCC portfolio is updated from time to time in light of developments at firms and in the financial sector. During the period covered by this report, the LISCC portfolio included eight domestic firms and three foreign banking organizations.

The Large and Foreign Banking Organization, or LFBO, program supervises all other large financial institutions that are not included in the LISCC program. The LFBO program includes some cross-firm supervisory activities, but firm-specific teams at the local Reserve Bank conduct most of the supervisory work, subject to oversight by the Board.

### Box 3. Supervision in a Remote Environment

Federal Reserve examiners have been conducting supervision using remote arrangements since the start of the COVID event and are well prepared to continue to operate in the remote environment. Over the past few years, the Federal Reserve has conducted much of its examination activity for smaller institutions from Federal Reserve offices, rather than on-site at the supervised institution. For instance, examiners can review loans through a secure transfer of an institution's loan files. In addition to saving travel time and expense, off-site examination activity reduces the impact on an institution's normal business operations that can occur when examiners are on-site. Therefore, when many institutions closed their offices because of the COVID event, examiners were still able to conduct work effectively and reach appropriate examination findings and conclusions.

Further, examination processes have been streamlined and adjusted to operate in a remote working environment and to provide greater agility and efficiency in conducting supervisory assessments. There have been minor logistical challenges reported when conducting entire examinations in an off-site format. In these few cases, the Reserve Banks provided flexibility and successfully worked through the technical issues with the supervised institutions.

Firms with assets less than $100 billion are supervised by the community banking organization, or CBO, and regional banking organization, or RBO, programs.[10] For CBOs and RBOs,

[10] Community banking organizations have less than $10 billion in total assets, and regional banking organizations have total assets between $10 billion and $100 billion.

the supervision model is more decentralized than the LISCC and the LFBO programs, with greater decisionmaking flexibility provided to Reserve Banks; again, subject to oversight by Board staff.

## Large Financial Institutions

This section of the report discusses the supervisory approach for large financial institutions, which are U.S. firms with assets of $100 billion or more and foreign banking organizations with combined U.S. assets of $100 billion or more. These firms are within either the LISCC portfolio or the LFBO portfolio. Large financial institutions are subject to regulatory requirements that are tailored to the risk profiles of these firms. Box 4 provides an overview of these regulatory requirements.

### *Large financial institutions remain well capitalized.*

Federal Reserve supervision helps to ensure that large financial institutions remain financially resilient, so that they can meet their obligations to creditors and other counterparties and continue to lend through a range of conditions. Large financial institutions remain well capitalized and able to support lending, although the COVID event has introduced significant financial uncertainty for the banking industry. The aggregate CET1 capital ratio for large banks in the second quarter was 12.2 percent, a similar level to the end of 2019, despite rising provisions and a slowdown in economic activity.[11] As discussed earlier in box 2, preliminary earnings data show an increase in the CET1 ratio in the third quarter of 2020. The improvement in capital ratios has been supported by the rebound in earnings, and in part by the capital conservation measures discussed below.

### *Stress testing is a cornerstone of Federal Reserve oversight.*

Since the 2008 financial crisis, the Federal Reserve has taken action to improve the quantity and quality of capital in the banking system. Stress testing is a critical tool to assess overall financial resilience of large banks. For firms with $100 billion or more in total assets, the Federal Reserve conducts a stress test to measure the resiliency of their capital under hypothetical stress scenarios and to verify that banks are prepared to deal with severe economic and financial conditions.[12] Starting this year, the results of the same stress test will also be used to set the stress capital buffer requirements for large banks.[13]

The unusual nature of the current crisis has made it particularly difficult to predict near-term trends. Given this ongoing uncertainty, the Board conducted a sensitivity analysis earlier this year, in addition to its normal stress test, to assess the resiliency of large banks under three

[11] Large banks include all bank holding companies and intermediate holding companies with $100 billion or more in assets.

[12] The sensitivity analysis includes the 33 firms. It does not include all large financial institutions (LFI) firms. The list of participating firms is available here: https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.

[13] In March, the Board adopted a final rule to integrate its capital planning and regulatory capital requirements through the establishment of a stress capital buffer requirement, creating a single, risk-sensitive capital framework for LBOs. The stress capital buffer requirement is calculated as the maximum decline in a firm's CET1 capital ratio over the supervisory stress test planning horizon plus four quarters of planned common stock dividends. See 85 Fed. Reg. 15,576 (March 18, 2020).

## Box 4. Tailoring of Regulation

In October 2019, the Board adopted rules that tailor its regulations for domestic and foreign banks to more closely match their risk profiles.[1] The rules establish a framework that sorts banks with $100 billion or more in total assets into four categories based on several factors, including asset size, cross-jurisdictional activity, reliance on weighted short-term wholesale funding (wSTWF), nonbank assets (NBA), and off-balance-sheet exposure (table A). (Some firms appear in the table twice as standards vary by legal entity.) Significant levels of these factors result in risk and complexity to a bank and can in turn bring risk to the financial system and broader economy. As the risk of a firm increases and it moves into a new risk category, its requirements will increase.

**Table A. List of domestic and foreign firms, by category, as of 2020:Q2**

| | Category I | Category II | Category III | Category IV |
|---|---|---|---|---|
| | U.S. G-SIBs | ≥$700b total assets or ≥$75b in cross-jurisdictional activity | ≥$250b total assets or ≥$75b in NBA, wSTWF, or off-balance-sheet exposure | Other firms with $100b to $250b total assets |
| **Domestic firms** | | | | |
| U.S. domestic banking organization | Bank of America<br>Bank of New York Mellon<br>Citigroup<br>Goldman Sachs<br>JPMorgan Chase<br>Morgan Stanley<br>State Street<br>Wells Fargo | Northern Trust | Capital One<br>Charles Schwab<br>PNC Financial<br>U.S. Bancorp<br>Truist Financial | Ally Financial<br>American Express<br>Citizens Financial<br>Discover<br>Fifth Third<br>Huntington<br>KeyCorp<br>M&T Bank<br>Regions Financial<br>Synchrony Financial |
| **Foreign firms (standards vary by legal entity)** | | | | |
| Intermediate holding company | | | Barclays US<br>Credit Suisse USA<br>Deutsche Bank USA<br>DWS USA<br>HSBC North America<br>TD Group US<br>UBS Americas | BMO Financial<br>BNP Paribas USA<br>MUFG Americas<br>RBC US<br>Santander Holdings USA |
| Combined U.S. operations | | Barclays<br>Credit Suisse<br>Deutsche Bank<br>MUFG<br>Sumitomo Mitsui | Bank of Montreal<br>BNP Paribas<br>HSBC<br>Mizuho<br>Toronto-Dominion<br>UBS | Banco Santander<br>Bank of Nova Scotia<br>BBVA<br>BPCE<br>Société Généralé<br>Royal Bank of Canada |

Note: NBA is nonbank assets, wSTWF is weighted short-term wholesale funding.

Source: FR Y-15, FR Y-9C, FR Y-7Q, 2019:Q3–2020:Q2.

[1] Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations, https://www.govinfo.gov/content/pkg/FR-2019-11-01/pdf/2019-23662.pdf.

hypothetical recessions, or downside scenarios, that could result from the COVID event.[14] The scenarios included: a V-shaped recession and recovery; a slower, U-shaped recession and recovery; and a W-shaped, double-dip recession.

In the three downside scenarios, the unemployment rate peaked at between 15.6 percent and 19.5 percent, significantly more adverse than any of the Board's pre-coronavirus stress test scenarios.

The annual stress test and sensitivity analysis generally showed that large banks are well capitalized and would remain so under a V-shaped downside scenario or an economic downturn similar in severity and duration to the last crisis. However, a delay in the economic recovery could have measurable negative effects on capital levels at many banks. Given the uncertainty surrounding recovery, the Federal Reserve took several preemptive actions for large banks to help ensure that these firms remain sufficiently capitalized.

For large banks, the Federal Reserve suspended share repurchases, capped the growth of dividends, and imposed a limit that dividends cannot exceed recent income. The distribution limitations were initially applied for the third quarter of 2020. At the end of the third quarter, given continued economic uncertainty from the COVID event, the Board extended the limitations through the end of the year.

These capital conservation measures have resulted in a preservation of capital at large banks, further allowing them to support the economic recovery.

## *The Federal Reserve is adapting its capital planning examinations.*

In response to the current macroeconomic environment, the Federal Reserve modified its annual capital planning examinations—Comprehensive Capital Analysis and Review (CCAR) and the Horizontal Capital Review (HCR)—to focus on monitoring how firms' capital planning responded to the COVID event.[15] In this year's CCAR and HCR, Federal Reserve examiners monitored how firms were managing their capital in the current environment, planning for contingencies, and positioning themselves to continue lending to creditworthy households and businesses.

The Federal Reserve's monitoring efforts have revealed certain differences in how firms adapted their capital planning to the COVID event. Firms used different forecasts of the COVID event on their capital positions. In some cases, firms relied exclusively on V-shaped scenarios rather than considering the potential for slower economic recovery. The severe macroeconomic conditions (such as the high unemployment rate arising from the crisis) and the effects of the economic stimulus and loan modification programs have been difficult for firms to incorporate into loss forecasting models. These challenges have prompted many firms to rely upon qualitative approaches, including the application of management judgment, to forecast losses and revenues. In addition, some firms have expedited their governance processes to respond to the rapidly changing situation.

[14] The scenarios are not predictions or forecasts of the likely path of the economy or financial markets.

[15] In normal cycles, as compared to CCAR's assessment of capital planning practices, HCR is more limited in scope, includes targeted horizontal evaluations of specific areas of capital planning, and focuses on the more tailored expectations set forth in supervisory guidance specific to these firms.

Because of the economic uncertainty from the COVID event, the Federal Reserve is requiring large banks to update and resubmit their capital plans in the fourth quarter to reflect the current stresses, which will help firms reassess their capital needs and maintain strong capital positions. The resubmission will also allow the Board to conduct additional analysis to further assess the financial conditions and risks of these banks and to determine if further supervisory actions are necessary.

In addition, the Board is performing another round of stress tests in the fourth quarter because of the continued uncertainty from the COVID event. Large banks will be tested against two scenarios featuring severe recessions to assess their resiliency under a range of outcomes. The Board will release firm-specific results from banks' performance under both scenarios by the end of this year.

Supervisors are monitoring credit portfolios exposed to industries materially affected by the COVID event (such as transportation and hospitality) in recognition of heightened risks that may be material loss drivers under certain economic conditions.

Supervisors are also focused on assessing

- credit-risk-management practices and loss projections for the highest risk portfolios;
- the timeliness of credit loss recognition and whether loss projections properly account for uncertainty in the current environment; and
- whether risk identification, measurement, and mitigation measures are sufficient to maintain capital adequacy under a range of adverse scenarios.

### *The COVID event has led to unprecedented action to accommodate borrowers.*

As discussed above, since the start of the COVID event, financial institutions—including large financial institutions—have accommodated borrowers in many ways, including payment deferrals, interest-only payment periods, fee waivers, forbearance, and temporary suspensions from credit reporting. The Federal Reserve and the other federal banking agencies have encouraged financial institutions to work in a prudent and safe and sound manner with borrowers who have been affected by the COVID event. Federal banking agencies view these accommodations as a positive response by institutions, which can help to manage or mitigate the adverse impact of the COVID event on their borrowers and communities.[16]

In response to the COVID event, large financial institutions have provided loan modifications on a sizable portion of their loan balances. Large financial institutions that reported on loan modification programs in their second-quarter public financial filings[17] disclosed $330 billion

[16] Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) (April 7, 2020); see also SR Letter 20-15 and SR Letter 20-18/ CA 20-13.

[17] Firms that disclose loan modification figures in their second quarter 2020 10-Qs include: Bank of America Corporation; The Bank of New York Mellon Corporation; Capital One Financial Corporation; Citigroup Inc.; Citizens Financial Group, Inc.; Discover Financial Services; Fifth Third Bancorp; The Goldman Sachs Group, Inc.; Huntington Bancshares Incorporated; JPMorgan Chase & Co; KeyCorp; M&T Bank Corporation; Morgan Stanley; Northern Trust Corporation; The PNC Financial Services Group, Inc; Regions Financial Corporation; Truist Financial Corporation; and U.S. Bancorp.

### Box 5. Climate Change and Microprudential Risks

Federal Reserve supervisors are responsible for ensuring that supervised institutions operate in a safe and sound manner and can continue to provide financial services to their customers in the face of all types of risks, including those related to climate change.

The effects of climate change can manifest as traditional microprudential risks, including through credit, market, operational, legal, and reputational risk. For example, chronic flooding or wildfires may pose a risk to the value of the collateral that a bank has taken as security against its loans. Technological innovations in the production, storage, and transport of energy could decrease the value of assets dependent on older technologies, resulting in mark-to-market losses on bank's trading portfolios or reduced cash flow of certain borrowers. Severe weather events could damage a bank's own physical property and data centers, affecting its ability to provide financial services to its customers.

The industry is adapting governance, risk identification and management, and scenario analysis and disclosures to better account for climate-related risks. The assessment and management of climate-related risks, however, present several challenges. The time horizon used to consider the effects of climate change significantly exceeds the typical life span of bank exposures as well as typical control and planning horizons. Future relationships between climate, economic, and financial variables might differ significantly from those observed in the past. Finally, assessing the materiality of climate-related risk requires new, asset-specific or geo-spatial data that involve significant resources to acquire and process.

Supervisors will seek to better understand, measure, and mitigate climate-related financial risks, including through analysis of transmission channels of climate change risk to the banking sector, measurement methodologies, and data gaps and challenges. Supervisors will also continue to work closely with other agencies and authorities, including through the Basel Committee on Banking Supervision's Task Force on Climate-Related Financial Risks and the Financial Stability Board.

of modified loans.[18] This amount equates to approximately 6 percent of total loan balances for these firms as of the second quarter of 2020.

For consumer loans, there was an initial surge in loan modifications in March and April, followed by a significant decline, particularly for non-mortgage retail credit such as credit card loans and auto loans. The decline has been driven both by bank actions, such as tighter re-enrollment conditions, and actions by borrowers, many of whom have resumed payments on outstanding loans. Early in the COVID event, many borrowers enrolled in payment deferral programs as a precautionary measure but have exited those programs as economic conditions stabilized.

[18] There is not a standard definition of "loan modifications" within the banking industry, and the SEC has not provided guidance on how firms should report these balances on their 10-Qs. Accordingly, while publicly disclosed loan modifications indicate the magnitude of these balances, they do not provide comparable data across firms.

For commercial loans, loan modifications continued to increase in the third quarter. Industries more severely affected by the COVID event, such as hotels, hospitality, and retail, show the highest concentrations of modifications.

### *Large firms have shown operational resilience to the COVID event.*

The Federal Reserve is conducting monitoring and examination activities to understand how large financial institutions have adapted their controls and operational risk management in light of the COVID event. As a whole, large firms have been resilient, leveraging their business continuity and business resumption strategies to enable remote work, with a few notable challenges. For example, firms were required to adjust practices that traditionally require an on-site presence, such as obtaining signatures or managing lockbox operations. Many firms and their third-party service providers rapidly modified processes and controls in light of these challenges, and the processes continue to evolve.

Firms are increasingly using remote endpoints, external networks, and collaboration tools to support remote work, heightening potential vulnerabilities related to cybersecurity attacks. Ransomware attacks, especially those targeting third-party service providers, are occurring with greater frequency and increasing effectiveness. The Federal Reserve's cybersecurity monitoring effort is designed to analyze the heightened risk environment, build supervisory knowledge of cyber risks, and take appropriate supervisory actions.

## Box 6. Current Large Financial Institution Supervisory Priorities

### Capital

- Credit risk, including credit loss recognition; loan review; and accuracy of risk-weighted assets
- Review of November 2020 capital plan resubmissions
- Earnings pressures and the ability to preserve capital in the current environment
- Board effectiveness and engagement

### Liquidity

- Internal liquidity stress testing assumptions, liquidity data quality, and contingency funding plans
- Liquidity risk limits and related governance processes
- Daily and short-term liquidity risk management monitoring programs

### Governance and controls

- Risk management in response to the COVID event
- Operational resilience, including cyber-related and information technology risks
- Compliance risk management, including Bank Secrecy Act/anti-money-laundering programs and OFAC compliance
- LIBOR transition preparedness

### Recovery and resolution planning

- Resolution plan and critical operations reviews
- Recovery planning (for LISCC firms)
- International coordination

Supervisors have also engaged with large financial institutions to understand governance and control challenges. Among other topics, supervisors have been monitoring increased potential for internal and external fraud as a result of the work-from-home environment and assessing potential gaps in internal controls and internal audits created by the temporary movement of audit or control employees to assist with other activities.

### *Large financial institutions' supervisory priorities for 2020.*

For the remainder of 2020, supervisors have tailored safety and soundness supervisory activities to those that are most relevant to understanding and assessing a firm's financial and operational resilience. Specifically, supervisory work is focused on three areas: (i) examinations to support the timely issuance of supervisory ratings, (ii) examinations and monitoring of areas of heightened risk for the firms, and (iii) monitoring emerging risks related to the COVID event. Examination processes have been streamlined and adjusted to reflect the remote working environment.

## Community and Regional Banking Organizations

This section of the report discusses the supervisory approach for banking organizations with assets less than $100 billion, including CBOs, which have less than $10 billion in total assets, and RBOs, which have total assets between $10 billion and $100 billion.

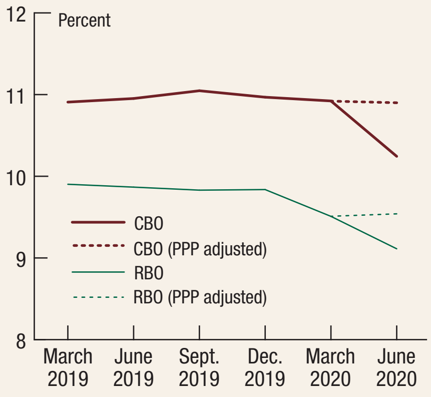
### *Most CBOs and RBOs were in satisfactory condition prior to the COVID event.*

Most CBOs and RBOs entered 2020 in sound financial condition with improved risk management, including management of credit concentrations. At the end of 2019, over 95 percent of CBOs and RBOs had a supervisory rating of satisfactory or higher. More than 99 percent of CBO and RBO insured depository institutions were considered well capitalized, and more than 96 percent of CBOs and all RBOs were profitable in 2019.[19]

### *The majority of CBOs and RBOs remain in satisfactory condition, though the COVID event has impacted financial performance.*

Community and regional banking organizations remain in generally satisfactory financial condition, though the COVID event has introduced significant financial uncertainty for the banking industry. The aggregate tier 1 leverage ratio remains relatively robust, at 10.2 percent for CBOs and nearly 9.1 percent for RBOs as of the second quarter of 2020 (figure 10), although capital ratios for these categories of banks have declined since the beginning of the COVID event. The decrease in the tier 1 leverage ratio is largely the result of strong PPP lending, which increased the assets used in the denominator of the leverage ratio. Adjusting for PPP loans, the aggregate tier 1 leverage ratio would be 10.9 percent for CBOs and 9.5 percent for RBOs as of June 30. Less than 1 percent of organizations in these two portfolios report capital levels that do not meet the "well-capitalized" designation.

Figure 10. Tier 1 leverage ratio (CBOs and RBOs)



Note: The PPP-adjusted leverage ratio was computed by subtracting PPP covered loans outstanding from the ratio's denominator, and then adding back to the denominator the quarterly average amount of PPP covered loans pledged to the PPPLF that were excluded from total assets for the leverage ratio.

Source: Call Report and FR Y-9C.

In an effort to build capital resiliency, most CBOs and RBOs took steps to reduce capital distributions or build capital in the first and second quarters of 2020. CBO-insured depository institutions reduced their dividends in the second quarter to $2.7 billion from $4.5 billion in the fourth quarter of 2019. RBOs reduced their dividends over the same period to $2.0 billion

[19] The term "CBO and RBO insured depository institutions" refers to state member banks, nonmember banks, and national banks in the CBO and RBO portfolios.

### Box 7. Preliminary Third-Quarter Results for CBOs and RBOs

Based on recent examination findings, off-site monitoring activities, and preliminary regulatory reporting data, CBO and RBO state member banks have generally adapted to the changes in the economy and their operational environment. However, localized spikes in COVID-19 cases and related business closures have affected financial performance and operations of CBO and RBO state member banks.

From June 15, 2020, when examinations resumed, until October 1, 2020, the Federal Reserve examined 63 CBO and RBO state member banks. Based on preliminary examination results, Federal Reserve examiners did not uncover a greater number of supervisory issues compared with pre-COVID-event examinations. To date, none of these Federal Reserve-led examinations resulted in a downgrade from a satisfactory CAMELS composite rating to a less-than-satisfactory rating.

Most CBOs and RBOs expect positive net income for 2020, primarily because of income associated with PPP loans, mortgage origination fees, and securities gains. Liquidity conditions remain favorable, as CBOs and RBOs report generally stable or increasing liquidity levels and lower reliance on noncore funding. CBOs noted that a particular challenge is their inability to find attractive investment opportunities for excess funds. RBOs are using their excess liquidity to buy back bank debt, reduce brokered deposits, pay down commercial paper and borrowings, and grow their investment portfolios.

Although overall credit quality trends appear stable at this time, CBOs and RBOs remain vigilant in monitoring their loan portfolios because of the potential for future deterioration. Certain industries, including hospitality, restaurant, retail, and entertainment, continue to experience stress, though CBO and RBO bankers overall report only moderate and isolated credit quality concerns. Some banks have tightened underwriting standards and risk tolerances while economic conditions remain stressed.

Many CBOs and RBOs have maintained their dividend payments, and a number have either begun or are planning to resume share repurchase programs. Some institutions have indicated that economic conditions have generally stabilized or will be manageable, and their forecasts support these capital distributions. The Federal Reserve continues to encourage institutions to maintain capital resiliency while the COVID event is ongoing and uncertainty persists.

from $2.1 billion in the fourth quarter of 2019. To further preserve capital, most RBOs have suspended their share repurchase programs.

Profitability measures for CBOs and RBOs fell in the first half of 2020, after lockdowns and other measures were taken to control the spread of COVID-19 and as the COVID event began affecting businesses. Despite additional income from PPP loans, close to 4.6 percent of CBOs and 13.6 percent of RBOs were not profitable for the first half of 2020, as net interest income declined and provisions increased. A spike in first-quarter goodwill impairment losses also weighed on RBOs' profitability.

## Box 8. Interagency Coordination on Examinations

The uncertainty in today's economy and the operational challenges faced by supervised financial institutions highlight the importance of interagency efforts to coordinate safety and soundness supervisory activities. The Federal Reserve shares supervisory and regulatory responsibility for domestic member banks with individual state banking departments. In its role as the holding company supervisor, the Federal Reserve also interacts with all of the federal banking agencies. Therefore, the Federal Reserve's consolidated supervisory program requires strong, cooperative relationships with the primary federal and state agencies for insured depository institutions.

To limit potential duplication of supervisory activities and undue burden on supervised institutions, the Federal Reserve tailors its supervisory activities to an institution's legal entity and regulatory structure, as well as the risks associated with its activities, and relies, to the greatest extent possible, on the assessments of the primary supervisor for the insured depository institution.

The agencies have several well-established avenues to promote interagency coordination and collaboration, which have proven valuable in coordinating the agencies' response to the COVID event. Under the auspices of the Federal Financial Institution Examination Council (FFIEC), the agencies develop and issue uniform principles, standards, and report forms for the examination of financial institutions.

In response to the COVID event, the financial regulatory agencies are meeting more frequently to discuss the condition of supervised institutions and the results from their examinations and monitoring activities. These interagency discussions aid the agencies in developing and executing their supervisory plans and in adjusting supervisory policies. For instance, in June 2020, the agencies and the states worked together to develop COVID-related guidance to promote consistency and flexibility in the supervision and examination of financial institutions.[1] As noted in the guidance, safety and soundness examiners of all agencies were reminded that they should not criticize an institution's management that has managed risk appropriately by taking proper risk assessment and mitigation efforts in response to the stresses caused by the COVID event.

[1] Refer to SR Letter 20-15, "Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions," https://www.federalreserve.gov/supervisionreg/srletters/sr2015.htm.

### *CBOs and RBOs made extraordinary efforts to work with their borrowers affected by the COVID event.*

CBOs and RBOs have made substantial efforts to support their borrowers with loan modifications. CBO- and RBO- insured depository institutions reported $367 billion, or roughly 10.5 percent of outstanding loans and leases, as modifications under section 4013 of the CARES Act. Loan modifications can include payment deferrals, interest-only payment periods, fee waivers, forbearance, and temporary suspensions from credit reporting.

Federal Reserve supervisors have found that while both CBOs and RBOs had expected to receive additional requests for loan modifications after those provided at the beginning of the COVID event (i.e., initial or first-wave modifications), new or additional requests for modifications (i.e., the second wave) have been fewer than the first wave. CBO modifications in the second wave have generally been limited to short-term targeted changes, typically an interest-only loan for a set period, and primarily provided to commercial borrowers in the hospitality and retail sectors.

While many RBOs saw a temporary increase in the second wave of loan modifications in July, the level of modification requests was still lower than the first wave. While institutions continue to work with their borrowers, they have formalized their underwriting process for those borrowers requesting additional modifications or are requiring a borrower to demonstrate a financial need and the ability to perform under the terms of the new modification request.

## *Several actions taken by the Federal Reserve addressed the unique challenges and operating conditions faced by CBOs and RBOs.*

To balance the responsibility to promote safety and soundness against institutions' operating challenges, the Federal Reserve has taken a number of actions:

- ***Extension of the filing deadline for the March financial regulatory reports***: The federal banking agencies provided institutions with relief on the filing deadline for their March 31, 2020, Call Reports, as long as an institution submitted the report within 30 days of the official filing date. Roughly 20 percent of Call Report filers took advantage of this additional time, with all respondents reporting within the additional time allowed. The Federal Reserve provided similar relief to holding companies with $5 billion or less in total assets for submitting the March 30, 2020, financial regulator reports (i.e., FR Y-9C and FR Y-11). Roughly 21 percent of eligible holding companies took advantage of this additional time.
- ***Temporary relief on the community bank leverage ratio (CBLR)***: The Federal Reserve and the other federal banking agencies adopted interim final rules to lower the CBLR from 9 percent to 8 percent beginning in the second quarter of 2020 and for the remainder of calendar year 2020. The ratio moves to 8.5 percent for calendar year 2021, and 9 percent thereafter. Roughly 40 percent of eligible banks have adopted the CBLR as of June 30, 2020, and 9.4 percent of CBLR adopters benefited from this relief, as their CBLR fell between 8 percent and 9 percent as of June 30, 2020.
- ***Deferral of certain appraisal regulatory requirements***: From April 17, 2020, through December 31, 2020, the federal banking agencies are deferring certain appraisals and evaluations for up to 120 days after closing of residential or commercial real estate loan transactions.

## *The supervisory approach has been adapted in response to the COVID event.*

As a result of the COVID event, the Federal Reserve has shifted the focus of CBO and RBO supervisory activities to assessing the overall safety and soundness of an institution as well as the effectiveness of an institution's risk management and responsiveness to changing economic and market conditions. Stresses caused by the COVID event can adversely affect an institution's financial condition and operational capabilities, even when institution management has appropriate governance and risk-management systems in place to identify, monitor, and control risk. Therefore, in assessing safety and soundness, examiners will consider the unique, evolving, and potentially long-term nature of the challenges confronting institutions and exercise appropriate flexibility in their supervisory response.[20]

[20] Refer to the Board press release on June 15, 2020, "Federal Reserve Statement on Supervisory Activities," https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200615a.htm.

### Box 9. Current CBO and RBO Supervisory Priorities

**Overall**

- Assessing capital and liquidity resiliency without impeding the flow of credit
- Evaluating risk-identification and management practices
- Prioritizing examiner resources on high-risk institutions

**Capital**

- Capital planning, projections, needs, and vulnerabilities
- Capital actions
- Earnings assessment

**Credit Risk**

- High-risk loan portfolios
- Credit concentrations
- Underwriting practices and asset growth
- Loan modifications
- Reserve practices and levels

**Operational Risk**

- Continuity of operations
- Information technology and cybersecurity

In mid-June, as operational conditions began to stabilize, the Federal Reserve resumed CBO and RBO examination activities and anticipates that examination activities, including full-scope examinations, will be conducted off-site until conditions improve to facilitate on-site examinations.[21] In scheduling CBO and RBO examinations, the Federal Reserve is considering unique safety and soundness concerns of each banking organization and their operational capacity for an examination.

One of the primary goals of the Federal Reserve's supervisory approach is to ensure the resilience of financial institutions while not impeding the flow of credit that is vital for economic recovery. Therefore, where possible, the Federal Reserve will streamline the supervisory review of lower risk, well-managed institutions in sound financial condition while focusing its supervisory attention on high-risk institutions as warranted by facts and circumstances.

Examiners will continue to assess CBOs and RBOs in accordance with existing policies and procedures and may provide feedback, or possibly downgrade an institution's supervisory rating, if conditions at the institution deteriorate. For the remainder of the year, the Federal Reserve's focus for CBO and RBO supervisory activities will be on evaluating a supervised institution's capital resiliency, liquidity resiliency, and effectiveness of an institution's risk management and responsiveness to changing economic and market conditions.

The Federal Reserve will continue its off-site monitoring activities of CBOs and RBOs and will maintain contact with bank management and other regulators. Such efforts provide the Federal Reserve with information on emerging risks and market trends along with the identification of industry trends and the concerns of bankers.

[21] From late-March to mid-June, the Federal Reserve paused most examination activities and shifted to off-site monitoring for CBOs and RBOs.

### Box 10. Partnership for Progress and Minority Depository Institutions

Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), requires the Federal Reserve System to devote efforts toward preserving minority ownership of minority depository institutions (MDIs). The Federal Reserve supports these efforts and actively works with the FDIC and the OCC to leverage all perspectives and federal banking agency resources to implement the congressional mandates. The Federal Reserve recognizes that there is more to be done, especially as it relates to the decline in African American-owned banks. As such, the Federal Reserve remains strongly committed to providing support to MDIs.

MDIs are typically small community banks associated with Asian American, African American, Native American, or Hispanic American groups. In accordance with section 367 of the Dodd-Frank Act, the Board submits an annual report to the Congress detailing the actions taken to fulfill the FIRREA requirements.[1]

The Federal Reserve has primary supervisory responsibility for 14 state-member MDIs and provides direct technical assistance and outreach to these MDIs. However, the Federal Reserve views the congressional mandate to preserve and promote MDIs as more than simply supervising state-member MDIs. In this regard, the Federal Reserve actively works with the other federal banking agencies to coordinate interagency activities focused on supporting all MDIs.

The Federal Reserve established the System's Partnership for Progress (PFP) in 2008 to improve coordination of support to state-member MDIs.[2] The PFP program, a national outreach effort, helps MDIs confront unique business-model challenges, cultivate safe banking practices, and compete more effectively in the marketplace. Board staff and PFP-dedicated staff at each of the 12 Federal Reserve Banks oversee and coordinate the PFP activities.

In response to the COVID event, the Federal Reserve conducted several PFP outreach events on a number of COVID-event-related topics. For example, in May 2020, Governors Michelle Bowman and Lael Brainard held a video conference call with senior management at state-member MDIs to hear about their experiences and challenges in dealing with the ramifications of the COVID event on their operations, customers, and communities. Additionally, the Federal Reserve held two webinars with MDIs to provide technical assistance on the discount window and on the Paycheck Protection Program Liquidity Facility (PPPLF). The Federal Reserve will continue to explore avenues for assisting MDIs as they face the challenges posed by the COVID event.

[1] Refer to the Board's public website for the most recent report to Congress, "Preserving Minority Depository Institutions," May 2020, at https://www.federalreserve.gov/publications/files/preserving-minority-depository-institutions-2020.pdf with the details on the Federal Reserve's MDI assistance, as well as a listing of state-member MDIs by state and the FIRREA section 308 provisions.

[2] For more information on the PFP, see the Federal Reserve Board's website at https://fedpartnership.gov/.

# Appendix A: Data Appendix

## Definition of Data Sources

*The Supervision and Regulation Report* includes data on institutions supervised or not supervised by the Federal Reserve System. The report reflects data through October 16, 2020. This appendix details these sources.

### Earnings Release Data

The earnings release data shown in box 2 were collected by S&P Global Market Intelligence, and consist of the following 13 bank holding companies, which all reported third-quarter earnings by October 16: Ally Financial Inc.; Bank of America Corporation; The Bank of New York Mellon Corporation; Citigroup Inc.; Citizens Financial Group, Inc.; The Goldman Sachs Group, Inc.;, JPMorgan Chase & Co.; Morgan Stanley; The PNC Financial Services Group, Inc.; State Street Corporation; Truist Financial Corporation; U.S. Bancorp; and Wells Fargo & Company. Firm panels are fixed throughout all the series shown. Loan loss reserves data are not reported by The Goldman Sachs Group and Morgan Stanley in their earnings releases, so data for those two firms have been excluded from figure B. All firms shown in this data sample adopted CECL in the first quarter of 2020. For dates prior to March 31, 2020, loan loss reserves represent the allowance for loan and lease losses (ALLL). For dates including and after March 31 , 2020, loan loss reserves represent the allowance for credit losses (ACL) on loans and leases.

### FFIEC Call Reports

The FFIEC Consolidated Reports of Condition and Income, also known as the Call Report, is a periodic report that is required to be completed by every national bank, state member bank, insured nonmember bank, and savings association as of the last day of each calendar quarter. The details required to be reported depend on the size of the institution, the nature of the institution's activities, and whether or not it has foreign offices. Call Report data are a widely used source of timely and accurate financial data regarding a bank's financial condition and the results of its operations. The data collected from the Call Report are used to monitor the condition, performance, and risk profiles of the institutions as individuals and as an industry.

### FR Y-9C

The Consolidated Financial Statement for Holding Companies, also known as the FR Y-9C report, collects basic financial data from domestic BHCs, SLHCs, U.S. IHCs, and securities holding companies (SHCs). Respondent burden reduction initiatives led to the asset-sized threshold change from $500 million to $1 billion, and from $1 billion to $3 billion effective March 2015 and September 2018, respectively. In addition, BHCs, SLHCs, IHCs, and SHCs meeting certain criteria may be required to file this report, regardless of size. However, when such BHCs, SLHCs, IHCs, or SHCs own or control, or are owned or controlled by, other BHCs, SLHCs, IHCs, or SHCs, only top-tier holding companies must file this report for the consolidated holding company organization. The information contained in the report is as of the last day of each calendar quarter.

### H.8 – Assets and Liabilities of Commercial Banks in the United States

The H.8 release provides an estimated weekly aggregate balance sheet for all commercial banks in the United States. The H.8 release is primarily based on data that are reported weekly by a sample of approximately 875 domestically chartered banks and foreign-related institutions. Data for domestically chartered commercial banks and foreign-related institutions that do not report weekly are estimated at a weekly frequency based on quarterly Call Report data.

## Notes on Specific Data

### Allowance for Credit Losses Coverage Ratio

The ACL coverage ratio is the ratio of ACL over total loans.

Data for domestic LISCC firms include the following: Bank of America Corporation, The Bank of New York Mellon Corporation, Citigroup Inc., The Goldman Sachs Group, JPMorgan Chase & Co., Morgan Stanley, State Street Corporation, and Wells Fargo & Company.

Data for domestic LBO firms include the following: Ally Financial Inc.; American Express Company; Capital One Financial Corporation; Citizens Financial Group, Inc.; Discover Financial Services; Fifth Third Bancorp; Huntington Bancshares Incorporated; KeyCorp; M&T Bank Corporation; Northern Trust Corporation; The PNC Financial Services Group, Inc.; Regions Financial Corporation; Synchrony Financial; Truist Financial Corporation; and U.S. Bancorp. Data for consumer-focused LBO firms include the following: Ally Financial Inc., American Express Company, Capital One Financial Corporation, Discover Financial Services, and Synchrony Financial.

### Commercial Loans

As reported by firms in their public financial filings, commercial loans include commercial real estate loans, commercial lease financing, commercial construction loans, and commercial and industrial (C&I) loans.

### Commercial Real Estate Loans

The sum of construction, land development, and other land loans; loans secured by farmland; loans secured by multifamily residential properties; and loans secured by nonfarm nonresidential properties.

### Common Equity Tier 1

Common equity capital is currently evaluated using a common equity tier 1 (CET1) capital ratio, which was introduced into the regulatory capital framework with the implementation of Basel III. The CET1 capital ratio is defined as CET1 capital as a percent of risk-weighted assets. Advanced approaches institutions are required to report risk-weighted assets using an internal model-based approach and a standardized approach. An advanced approaches institution is subject to the lower of the ratios.

From 2006 through 2013, tier 1 common was used to measure common equity capital for all firms. In 2014, both tier 1 common capital (for non-advanced approaches firms) and CET1 capital (for advanced approaches firms) were used. From 2015 through 2019, CET1 capital was used for all firms. Starting in 2020, CET1 capital is used for all firms except those that have opted into the community bank leverage ratio (CBLR) framework.

## Community Bank Leverage Ratio Framework

The CBLR framework, which became effective January 1, 2020, allows qualifying CBOs to adopt a simple leverage ratio to measure capital adequacy. To qualify for the framework, a CBO must have less than $10 billion in total consolidated assets, have limited trading activity and off-balance-sheet exposure, meet the leverage ratio requirement, and not be part of an advanced approaches banking organization. The leverage ratio requirement for the CBLR framework was temporarily lowered to 8 percent beginning in the second quarter of 2020 through the remainder of calendar year 2020. The requirement will be set at 8.5 percent for calendar year 2021 and will return to its previous 9 percent level beginning January 1, 2022.

The leverage ratio requirement for the CBLR framework is defined as tier 1 capital as a percent of average total consolidated assets for the quarter as reported on Schedule RC-K on the Call Report or Schedule HC-K on Form FR Y-9C, as applicable. A CBLR bank organization with a ratio above the requirement will not be subject to other capital and leverage requirements.

## Consumer Loans

Consumer loans include credit cards, other revolving credit lines, automobile loans, and other consumer loans (includes single-payment and installment loans other than automobile loans, and all student loans).

## Credit Default Swap Spread

The five-year credit default swap (CDS) spread is the premium payment expressed as a proportion of the notional value of the debt that is being insured against default (typically $10 million in senior debt) in basis points. Data are based on daily polls of individual broker–dealers worldwide. Note that these broker quotes are typically not transaction prices. Data provided are for LISCC (domestic and foreign) firms only.

## Liquid Assets

Liquid assets are cash plus estimates of securities that qualify as high-quality liquid assets, as defined by the liquidity coverage ratio requirement. Because of data availability constraints, HQLA estimate amounts displayed in figure 5 are based on Y-9C data and not based on 2052a reporting data.

## Loan Modifications under Section 4013

Section 4013 of the CARES Act, enacted March 27, 2020, allows financial institutions to suspend the requirements to classify certain loan modifications as troubled debt restructurings. To be an eligible loan under section 4013, a loan modification must be: (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (a) 60 days after the date of termination of the National Emergency or (b) December 31, 2020 (referred to as the "applicable period").

## Loan Modifications Reporting in 10-Q SEC Filing

There is not a standard definition of "loan modifications" within the banking industry, and the SEC has not provided guidance on how firms should report these balances on their 10-Qs. Accordingly, while publicly disclosed loan modifications indicate the magnitude of these balances, they do not provide comparable data across firms.

## Market Leverage

The market leverage ratio—defined as the ratio of the firm's market capitalization to the sum of market capitalization and the book value of liabilities—can be considered a market-based measure of firm capital (expressed in percentage points). Data provided are for LISCC (domestic and foreign) firms only.

## Nonperforming Loans

Nonperforming loans are those loans that are 90 days or more past due, plus loans in nonaccrual status.

## Provisions

For institutions that have adopted the Financial Accounting Standards Board's Accounting Standards Update 2016-13, "Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Loses on Financial Instruments" (ASU 2016-13), provisions represent the amount expensed as provisions for credit losses (or reversals of provisions) on loans and leases held for investment during the calendar year-to-date. Provision for credit losses (or reversals of provisions) on loans and leases held for investment represents the amount necessary to adjust the related allowances for credit losses at the quarter-end report date for management's current estimate of expected credit losses on these assets.

For institutions that have not adopted ASU 2016-13, provisions represent the amount expensed as the provision for loan and losses during the calendar year-to-date. Provision for loan and lease losses represents the amount needed to make the allowance for loan and lease losses adequate to absorb estimated loan and lease losses, based upon management's evaluation of the bank's current loan and lease exposures.

## Top Holder

All data, unless otherwise noted, use top-holder data. This population comprises top-tier Call Report (NAT, NMB, and SMB) filers and top-tier Y-9C filers. In instances where a top-tier holding company does not file the Y-9C, we combine financial data of subsidiary banks to approximate the consolidated financial data of the holding company. Because of data limitations, all FBOs, SLHCs, and commercial bank subsidiaries of top-tier FBOs and SLHCs are excluded from the top-holder population.

# Appendix B: Abbreviations

| | |
|---|---|
| ACL | allowance for credit losses |
| ALLL | allowance for loan and lease losses |
| BHC | bank holding company |
| CAMELS | Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk |
| CARES Act | Coronavirus Aid, Relief, and Economic Security Act of 2020 |
| CBLR | community bank leverage ratio |
| CBO | community banking organization |
| CCAR | Comprehensive Capital Analysis and Review |
| CDS | credit default swap |
| CECL | current expected credit losses |
| CET1 | common equity tier 1 capital |
| CRE | commercial real estate |
| C&I | commercial and industrial |
| Dodd-Frank Act | Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 |
| FASB | Financial Accounting Standards Board |
| FBO | foreign banking organization |
| FDIC | Federal Deposit Insurance Corporation |
| FFIEC | Federal Financial Institutions Examination Council |
| FIRREA | Financial Institutions Reform, Recovery, and Enforcement Act of 1989 |
| G-SIB | global systemically important bank |
| HCR | horizontal capital review |
| HQLA | high-quality liquid assets |
| IHC | intermediate holding company |
| LBO | large banking organization |
| LFBO | large and foreign banking organization |
| LFI | large financial institutions |
| LIBOR | London interbank offered rate |
| LISCC | Large Institution Supervision Coordinating Committee |
| MDI | minority deposit institutions |
| NAT | national bank |
| NBA | nonbank assets |
| NMB | nonmember bank |

| | |
|---|---|
| NPL | nonperforming loan |
| OCC | Office of the Comptroller of the Currency |
| OFAC | Office of Foreign Assets Control |
| PFP | Partnership for Progress |
| PPP | Paycheck Protection Program |
| PPPLF | Paycheck Protection Program Liquidity Facility |
| RBO | regional banking organization |
| ROAA | return on average assets |
| ROE | return on equity |
| SBA | Small Business Administration |
| SEC | U.S. Securities and Exchange Commission |
| SHC | securities holding company |
| SLHC | savings and loan holding company |
| SMB | state member bank |
| wSTWF | weighted short-term wholesale funding |

www.federalreserve.gov
1120