May 2004

State Federal Working Group
Recommended Practices for the Seamless Supervision of State-Chartered Banks

Objective: To provide recommended practices to assist state and federal supervisors in communicating and coordinating the planning and execution of supervisory activities to minimize regulatory burden on state-chartered banks by providing, to the fullest extent possible, a seamless supervisory process.

Background:

The sources for the recommended practices are the Nationwide State Federal Supervisory Agreement (Agreement) and suggestions from state and federal banking agencies that continue to work together in accordance with the principles in the Agreement. The Agreement was adopted in 1996 when the nation's state banking regulators joined their colleagues at the FDIC and Federal Reserve (federal agencies) to establish a series of principles that would govern how state and federal banking agencies coordinate the supervision of interstate banks. The goals of the Agreement are: to provide for a seamless supervisory process; to ensure that supervision is flexible and risk-focused; and to minimize regulatory burden and cost for covered institutions.[1] While the Agreement was developed to more effectively and efficiently coordinate the supervision and examination of state-chartered banks across state lines, the goals and principles that it outlines are equally applicable to the supervisory activities of a state-chartered bank within a single state.

Since the Agreement was initially executed, the banking organizations supervised have continued to consolidate and to engage in more complex or specialized activities in order to remain competitive. The ongoing and rapid transition of the industry has presented a challenge to both federal and state banking agencies to keep pace with the requisite staffing and expertise needed to implement effective, efficient, and consistent supervisory programs. This challenge is increasingly being met through the sharing of examination and supervisory resources across state agencies and within and across the regional and Washington offices of federal agencies. As more agencies and offices become involved in the supervision or examination of a banking organization, the potential for miscommunication or poor coordination also increases. Consequently, state and federal banking agencies need to be increasingly vigilant in their communication and coordination of the planning and execution of supervisory activities.

In response to this need, the State Federal Working Group, an interagency group of state bank commissioners and senior officials from the FDIC and Federal Reserve, has developed the recommended practices articulated below to assist in implementing the principles and achieving the goals of the Agreement.

The State Federal Working Group strongly recommends that this document be distributed to and discussed with all supervision and examination staff in the Federal Reserve

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[1] The extent to which all of the specific principles apply to multi-state banks depends on the size and complexity of the institution. Generally, the core principles apply to all interstate banks, with particular emphasis on complex or larger (e.g., $1 billion or more of assets) institutions.

System, the FDIC, and the state banking agencies. The document serves as a reminder of common courtesies and as a guideline for both new and seasoned staff to achieve a seamless supervision program for the banking organization supervised, irrespective of the number of agencies or offices involved.

Recommended Practices for State Banking Departments, FDIC, & Federal Reserve

1. State and federal banking agencies should take steps to ensure that all staff responsible for the supervision and examination of state-chartered banks are familiar with the principles contained in the Agreement. State and federal banking agencies should ensure that adherence to the principles in the Agreement is communicated as a priority within their respective agencies at all levels of staff - ranging from the field examiners to the officers in charge of supervision and state bank commissioners.
2. Home state supervisors should make every effort to communicate and coordinate with host state supervisors as an important part of supervising multi-state banks as specified in the Nationwide Cooperative Agreement executed by the state banking departments and recognized by the federal agencies in the Agreement.
3. State and federal banking agencies should consider inviting one another to participate in regional examiner training programs and/or seminars to discuss emerging issues and challenges observed in the banking industry.
4. Federal and state banking departments should maintain and share current lists of their staff members designated as PCPs (primary contact persons) for their institutions.
5. PCPs and EICs (examiners-in-charge)from the State Banking Department(s) and federal agencies should discuss and prepare supervisory plans at least once during the examination cycle, and more frequently as appropriate for institutions of greater size or complexity or that are troubled. The agencies should discuss and communicate changes to the plan as they may evolve over the examination cycle. The supervisory plans should be comprehensive, including examination plans, off-site monitoring, follow-up or target reviews, and supervisory actions, etc. as applicable.
6. The PCPs from the home state banking department and federal banking agencies should make every effort to share reports that their individual agencies have produced through their off-site monitoring program or through targeted supervisory activities.
7. State and federal banking agencies should notify one another as early as possible if their agency cannot conduct a supervisory event (e.g., examination) that was previously agreed upon – or if the agency intends to provide fewer examiners/resources than originally planned.

8. Meetings with bank management and directors should involve both the appropriate staff in the home state banking department and the responsible federal banking agency whenever possible. If a joint meeting is not possible or appropriate (e.g., the bank arranges the meeting with one agency only), the other agency (home state banking department or the responsible federal banking agency as applicable) should be informed of the meeting.

9. The home state and responsible federal agency should make every effort to issue a joint exam report in the 45 day timeframe identified in the Agreement. If circumstances prevent adherence to timeframes identified in the Agreement, the state and federal agencies should coordinate closely and consider benchmarks or timing requirements that may apply to the other agency.

10. All corrective action plans (e.g., Memoranda of Understanding, Cease and Desist Orders) should be jointly discussed, coordinated, and executed to the fullest extent possible among all examination parties involved. Also, all information on the institution's corrective action plan and progress made toward implementing the plan should be shared.

11. To ensure that messages to management are consistent to the fullest extent possible, supervisory conclusions or proposed actions should only be communicated to bank management, the bank board of directors, or other bank staff *after* such matters have been fully vetted within and between the federal banking agency and home state banking department. The vetting process should, to the fullest extent possible, adhere to the exit meeting and examination report issuance timeframes specified in the Agreement. All parties should make every effort to expedite the process in order to deliver timely exam findings and efficient regulatory oversight.

12. When differences between the agencies arise on important matters, such as examination conclusions or proposed supervisory action, senior management from the home state banking department and the appropriate federal banking agency should communicate to try to resolve the differences. In the event that the state and federal banking agency cannot reach agreement on important matters affecting the supervised institution, the respective agencies should coordinate the communication of those differences to the management or board of directors of the supervised institution, including the timing thereof and how the differing views will be presented.

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