

Attachment A

First-Cycle Inspection of SLHCs Engaged Primarily in Depository Institution Activities

The Federal Reserve supervisory program for an SLHC engaged primarily in depository institution activities conducted through its savings association(s) will be determined by the Federal Reserve supervisory program for portfolios of BHCs of similar asset size and complexity (i.e., the company generally will be treated as a community, regional, or large banking organization).¹ When conducting inspection activities, examiners should take into account the unique characteristics of SLHCs and coordinate with primary supervisors of the savings association and functional regulators of the parent or its nondepository subsidiaries, if any.

In general, the first inspection and assignment of an indicative rating will follow the issuance of the primary federal or state banking regulator's report of examination of the lead savings association subsidiary. Giving consideration to the time required for the primary federal or state banking regulator to complete its examination and issue a report, it is expected that the first inspections of, and assignments of indicative ratings to, SLHCs are not likely to occur until late 2011 or early 2012.

SLHCs with Less Than \$1 Billion in Assets

An inspection of a company with less than \$1 billion in assets (small shell company) will be conducted according to small shell bank holding company guidance (as described in SR letter 02-1, "Revisions to Bank Holding Company Supervision Procedures for Organizations with Total Consolidated Assets of \$5 Billion or Less"). In addition, the inspection should determine if the SLHC has nondepository subsidiaries that are engaged in activities involving consumer financial products or services. Key elements of this program for a small shell SLHC will include the following:

- Examiners should determine whether the SLHC is complex or noncomplex, including a determination of whether the SLHC conducts any activities that are not permissible for a BHC.²
- For a noncomplex small shell company where all subsidiary savings associations have satisfactory composite and management ratings, where no material outstanding or consolidated issues are otherwise indicated, and where there are no nondepository

¹ SLHCs with less than \$10 billion in assets generally will be supervised in the community banking organization portfolio, with SLHCs with less than \$1 billion in assets supervised as small shell companies. SLHCs with \$10 billion but less than \$50 billion in assets generally will be supervised as regional banking organizations, and SLHCs with \$50 billion or more in assets generally will be supervised as large banking organizations. These should be viewed as guidelines rather than rigid thresholds, since assignment of SLHCs to these portfolios will depend on not only the consolidated asset size of the SLHC, but also on the activities of the consolidated SLHC and the size and complexity of savings association subsidiaries.

² The determination of whether a holding company is "complex" versus "noncomplex" is made at least annually on a case-by-case basis taking into account and weighing a number of considerations, such as the size and structure of the holding company; the extent of intercompany transactions between insured depository institution subsidiaries and the holding company or uninsured subsidiaries of the holding company; the nature and scale of any nonbank activities, including whether the activities are subject to review by another regulator and the extent to which the holding company is conducting Gramm-Leach-Bliley authorized activities (e.g., insurance, securities, merchant banking); whether risk management processes for the holding company are consolidated; and whether the holding company has material debt outstanding to the public.

subsidiaries that are engaged in activities involving consumer financial products or services, examiners generally will assign only indicative risk-management and composite ratings to the SLHC based on the ratings of the lead savings association. Typically, Federal Reserve examiners assign these ratings based on offsite analysis.

- For other noncomplex small shell companies, examiners generally will conduct an offsite review, with targeted onsite review as necessary, and will assign only indicative risk-management and composite ratings to the SLHC based on its analysis.
- For a complex small shell company, examiners generally will conduct an offsite review, with targeted onsite review as necessary, and will assign an indicative rating to the SLHC based on its analysis, addressing all components of the RFI rating system.
- If a determination is made that an SLHC nondepository subsidiary is engaged in activities involving consumer financial products or services, those activities and their risks should be factored into the consumer risk assessment for the SLHC and in the indicative rating.

SLHCs with Assets Between \$1 - \$5 Billion

An inspection of a company with assets between \$1 billion and \$5 billion will be conducted according to SR letter 02-1, “Revisions to Bank Holding Company Supervision Procedures for Organizations with Total Consolidated Assets of \$5 Billion or Less.” In addition, the inspection should determine if the SLHC has nondepository subsidiaries that are engaged in activities involving consumer financial products or services. Key elements of this program for these SLHCs will include the following:

- Examiners should determine whether the SLHC is complex or noncomplex, including a determination of whether the SLHC conducts any activities that are not permissible for a BHC.
- For a noncomplex SLHC with a satisfactory composite rating, a limited-scope onsite inspection--which may be satisfied with a targeted inspection--is required every two years.
- For a complex SLHC with a satisfactory composite rating, a full-scope onsite inspection is required annually. This requirement may be satisfied with a limited-scope or targeted review for the onsite portion of the inspection, supplemented by other information sources.
- For an SLHC with a less-than-satisfactory composite rating, irrespective of complexity, at least one full-scope onsite inspection and one limited-scope or targeted inspection are required annually. The requirement for an annual full-scope inspection may be satisfied with a limited-scope or targeted inspection for the onsite portion, supplemented by other information sources.
- Complete indicative ratings will be assigned to the SLHC in conjunction with inspection activities.
- If a determination is made that an SLHC nondepository subsidiary is engaged in activities involving consumer financial products or services, those activities and their risks should be factored into the consumer risk assessment for the SLHC and in the indicative rating.

- Additional limited-scope or targeted inspection activities may be conducted as needed.

SLHCs with Assets Between \$5 - \$10 Billion

An inspection of a company with assets between \$5 billion and \$10 billion will be conducted in accordance with section 5000 of the *Bank Holding Company Supervision Manual*. In addition, the inspection should determine if the SLHC has nondepository subsidiaries that are engaged in activities involving consumer financial products or services. Key elements of this program for these SLHCs will include the following:

- Examiners should determine whether the SLHC is complex or noncomplex, including a determination of whether the SLHC conducts any activities that are not permissible for a BHC.
- For a noncomplex SLHC with a satisfactory composite rating, a limited-scope onsite inspection is required every two years.
- For a complex SLHC with a satisfactory composite rating, a full-scope onsite inspection is required annually.
- For an SLHC with a less-than-satisfactory composite rating, irrespective of complexity, at least one full-scope onsite inspection and one limited-scope or targeted inspection are required annually.
- Complete indicative supervisory ratings will be assigned to the SLHC in conjunction with inspection activities.
- If a determination is made that an SLHC nondepository subsidiary is engaged in activities involving consumer financial products or services, those activities and their risks should be factored into the consumer risk assessment for the SLHC and in the indicative rating.
- Additional limited-scope or targeted inspection activities may be conducted as needed.

SLHCs with Assets of \$10 Billion and Greater

During the first supervisory cycle, staff will engage in regular discovery activities of SLHCs with assets of \$10 billion and greater that are engaged primarily in depository institution activities. These discovery activities will focus on gaining an understanding of the SLHC's financial condition, financial activities, corporate governance, and risk management processes.

- The first inspection activities at an SLHC with assets of \$10 billion and greater will be conducted according to the principles set forth in consolidated supervision guidance contained in SR letter 08-9/CA letter 08-12, "Consolidated Supervision of Bank Holding Companies and the Combined U.S. Operations of Foreign Banking Organizations." In addition, due to the unique nature of many SLHC activities, discovery review activities will be part of inspection activities, particularly during the first inspection cycle. The inspection generally will not be completed, and the indicative ratings assigned, until issuance of the primary federal banking regulator's report of examination of the lead savings association subsidiary.

- While most SLHCs engaged primarily in depository institution activities operate in a manner that is similar to that of BHCs (i.e., the majority of operations are conducted through depository institution subsidiaries and nondepository subsidiaries engaged in activities that are primarily financial in nature), some companies in this group may conduct activities that normally are not encountered in BHCs. Therefore, examiners should develop an understanding of these operations, the manner in which the company monitors and manages these activities, and risks to the safety and soundness of the company or its depository institution subsidiaries, as well as any potential consumer compliance risks, that could arise from these activities.