

## Attachment C

### Assessing Capital Planning and Sufficiency

SLHCs currently are not subject to consolidated regulatory leverage or risk-based capital requirements. However, in accordance with both Federal Reserve and OTS guidance, an SLHC should have sufficient capital and an effective capital planning process, consistent with its overall risk profile and considering the size, scope, and complexity of its operations, to ensure the safe and sound operation of the company.

Examiners should evaluate capital planning and sufficiency following relevant BHC supervisory guidance, which is very similar to the supervisory methods formerly used by the OTS. This guidance includes:

- SR letter 09-4, “Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies”
- SR letter 04-18, “Bank Holding Company Rating System”
- SR letter 02-1, “Revisions to Bank Holding Company Supervision Procedures for Organizations with Total Consolidated Assets of \$5 Billion or Less”
- SR letter 99-18, “Assessing Capital Adequacy in Relation to Risk at Large Banking Organizations and Others with Complex Risk Profiles”
- Sections 4060.3.10, 4060.3.11.3, 4060.7, and 4060.9 of the Federal Reserve’s *Bank Holding Company Supervision Manual*

### Qualitative Capital Assessment

The OCC, FDIC, or state regulator will assess capital at the savings association level. If capital planning is conducted at the thrift level and the SLHC is a noncomplex shell SLHC, examiners should rely to the extent possible on the federal or state regulator’s work to evaluate capital planning and sufficiency, following the guidance in SR 02-1, SR 04-18, SR 09-4, and the *Bank Holding Company Supervision Manual*.

If capital planning is conducted at the SLHC level or if the SLHC is large, complex, or primarily conducts nonbanking activities, examiners should independently assess capital planning and sufficiency at the SLHC, following the guidance in SR 99-18, SR 04-18, SR 09-4, and the *Bank Holding Company Supervision Manual*.

Examiners should assess whether capital planning processes are sufficient for the institution’s size, complexity, and risk profile. For example, when assessing capital planning processes at the SLHC, examiners should inquire as to how the SLHC’s management and board:

- identify the consolidated risk profile, considering organizational structure and risk management
- determine the level of consolidated capital to maintain commensurate with those risks, including assessment of capital sources (internal and external), capital levels, and trends

- conduct formal capital planning, including stress testing under various degrees of stress
- consider the appropriate level and mix of various capital instruments
- consider the appropriate level of dividends
- factor industry-specific capital requirements established by a federal, state, or other regulatory body in the capital assessment (if applicable)
- factor peer analysis and ratings agency analysis in the capital assessment
- incorporate the above assessments in strategic and tactical planning
- document the above assessments in board and committee meeting minutes

Examiners also should understand how the SLHC's management and board:

- identify risks within the savings association subsidiary(ies)
- assess the capital needs at the savings association subsidiary(ies)
- consider the appropriate level of dividends from the savings association subsidiary(ies) to the parent

Finally, examiners should consider how the SLHC historically has served as a source of capital for the savings association subsidiary(ies) and its ability to do so in the future.

### **Quantitative Capital Assessment**

In addition, examiners may find it useful to calculate the ratios described in section 300 of the OTS  *Holding Companies Handbook* to aid in identifying trends in capital levels and sufficiency when compared to prior periods and prior OTS holding company reports of examination.

### **Assigning a Rating to Capital**

When assigning an indicative or final rating to the Capital Adequacy subcomponent of the RFI Financial Condition component, examiners should utilize the descriptions of the ratings in the attachment to SR 04-18, which do not refer to specific regulatory capital requirements. Examiners should also utilize the inspection procedures set forth in section 4060.3.11.3, "Overall Assessment of Capital Adequacy," of the *Bank Holding Company Supervision Manual*, excluding any procedures (such as #1) related to minimum regulatory capital standards.