



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

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DIRECTOR  
DIVISION OF CONSUMER  
AND COMMUNITY AFFAIRS

CA 13-19

November 18, 2013

**TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS  
SECTIONS:**

**SUBJECT: Community Bank Risk-Focused Consumer Compliance Supervision Program**

**Applicability to Community Banking Organizations:** This guidance applies to the supervision of community banking organizations, defined as institutions supervised by the Federal Reserve with total consolidated assets of \$10 billion or less.

Effective January 1, 2014, the Federal Reserve is adopting the attached *Community Bank Risk-Focused Consumer Compliance Supervision Program* ("Program") for state member banks with consolidated assets of \$10 billion or less and their subsidiaries (community banking organizations). The new program is designed to promote strong compliance risk management practices and consumer protection at state member community banks. Under the updated program, consumer compliance examiners will base the examination intensity more explicitly on the individual financial institution's risk profile, including its consumer compliance culture and how effectively it identifies and manages consumer compliance risk. We expect that the new program will enhance the efficacy of our supervision program and reduce regulatory burden on many community banking organizations.

The Program provides an enhanced risk assessment process based on current information about a financial institution's products and services, as well as related legal and regulatory factors, the environment in which the institution operates, and its compliance risk management practices. Through the risk assessment process, examiners will gain an understanding of a financial institution's compliance culture; its processes for identifying, measuring, monitoring, and controlling risks; its practices regarding the treatment of consumers; and the potential for consumer harm. Based on the level of residual risk identified in the risk assessment process, a customized work program will be developed that includes examination activities consistent with the size, complexity, and risk profile of the institution's products, services, and business lines.

The Program also incorporates ongoing supervision, typically a supervisory contact close to the mid-cycle between consumer compliance examinations. However, in some cases when the institution's risk profile is high or it changes materially as a result of the addition of more complex or higher-risk strategies, more frequent contacts may be appropriate. Ongoing supervision is intended to identify and, if necessary, address significant changes in the

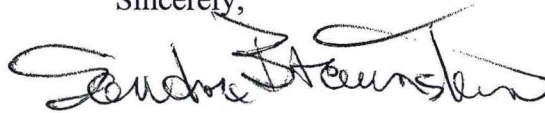
institution's compliance risk management program or in the level of consumer compliance risk present and ensure that supervisory information is up to date.

Please see the *Community Bank Risk-Focused Consumer Compliance Supervision Program Executive Summary* for an overview of the program and the *Community Bank Risk-Focused Consumer Compliance Supervision Program* document for the complete program. This Program replaces the *Risk-Focused Consumer Compliance Supervision Program* (CA 03-13) for state member community banks.

Please distribute this letter and its attachments to Federal Reserve-supervised community banking organizations, supervisory staff, and examiners.

Questions on this letter and the new program should be directed to Carol Evans, Assistant Director, at (202) 452-2051; Cathy Gates, Senior Project Manager, at 202-452-2099; or Lanette Meister, Senior Supervisory Consumer Financial Services Analyst, at (202) 452-2705 in the Division of Consumer and Community Affairs. In addition, questions may be sent via the Board's public website.<sup>1</sup>

Sincerely,



Attachments:

- *Community Bank Risk-Focused Consumer Compliance Supervision Program*
- *Community Bank Risk-Focused Consumer Compliance Supervision Program Executive Summary*

Supersedes:

- CA 03-13 "Risk-Focused Consumer Compliance Supervision Program"
- CA 01-4 "Alternative Fair Lending Examination Procedures"

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<sup>1</sup> See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>.