



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

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 13-10

April 25, 2013

**TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK**

**SUBJECT: Format for Safety-and-Soundness Reports of Examination and Inspection for
Community State Member Banks and Holding Companies Rated Composite “4” or “5”**

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.

The Federal Reserve is adopting a flexible, letter-format report in lieu of the standard, longer-form report for communicating the findings of on-site safety-and-soundness examinations and inspections of community banking organizations¹ that result in composite supervisory ratings of “4” or “5.” Effective immediately, examiners may use a letter-format report for examination and inspections of community banking organizations rated “4” or “5,” provided all mandatory and any applicable optional information is in the report.

The option of using a flexible letter-format for such community banking organizations will enable Reserve Banks to better focus their reports on key findings and improve the communication of supervisory expectations to companies in need of significant improvement. In addition, given the increased examination frequency of community banking organizations with a “4” or “5” rating (typically every six months), the letter format will also hasten the communication of supervisory expectations.

Examiners are to continue to follow the examination report guidance provided in SR letter 01-19, “Reports of Examination of Community Banking Organizations,” for full scope examinations of community banking organizations rated “1,” “2,” or “3.”² That guidance provides for some flexibility in the structuring of the examination reports so long as all mandatory and applicable optional content is covered. Examiners have flexibility in writing the narrative portion of reports.

¹ Community banking organizations include state member banks, bank holding companies, and savings and loan holding companies with assets of \$10 billion or less.

² The flexible letter-format may also be used on target examinations of 3-rated community banking organizations, as applicable.

Letter-Format Report of Examination Content

A letter-format report of examination for state member banks rated “4” or “5” should be tailored to fit the particular circumstances of the institution under review and should fully address the key areas that are routinely covered in the mandatory pages of the open and confidential sections of the standard report of examination.³ These areas in the open section of the examination report include:

- scope of the examination,
- matters requiring board attention,
- conclusions regarding management and risk management (addressing risk factors and the adequacy of risk management associated with risk levels and trends, which may include a risk assessment matrix),
- analysis of financial factors,
- summary of items subject to classification or listed as special mention
- signature of directors, and
- any applicable areas that are described as optional pages in the standard report of examination instructions and are necessary to support examiners’ findings. Examples of these areas include compliance with enforcement actions and violations of laws or regulations.

These areas in the confidential section of the examination report include:

- directors and officers, which includes information such as duties, length of service, and committee assignments;
- general information about the institution, including sensitive matters not addressed in the open section of the report such as strategic and information technology plans, planned new products and services, insider influence, and recommended supervisory actions; and
- risk assessment matrix (if not included in the open section).

Letter-Format Report of Inspection Content

Similarly, a letter-format report of inspection prepared in support of on-site bank and savings and loan holding company⁴ inspections that result in a rating of “4” or “5” should be tailored to each company and should fully address the areas typically covered in the core section of the standard inspection report format.⁵ These areas include:

³ See SR letter 01-19, “Reports of Examinations of Community Banking Organizations.”

⁴ See SR letter 11-11 / CA letter 11-5, “Supervision of Savings and Loan Holding Companies (SLHCs),” and SR letter 13-8 / CA letter 13-5, “Extension of the Use of Indicative Ratings for Savings and Loan Holding Companies,” concerning indicative ratings of SLHCs.

⁵ See the Federal Reserve’s *Bank Holding Company Supervision Manual*, section 5010, “Procedures for Inspection Report Preparation (Inspection Report References).”

- scope of the inspection,
- matters requiring board attention,
- analysis of consolidated, parent company, nonbank and bank subsidiary financial factors, and
- conclusions regarding the internal and external audit program.

In addition, any applicable areas that are described as optional pages in the standard report of inspection instructions and are necessary to support examiners' findings should be included.

Communication of Supervisory Findings

As with standard reports of examination and inspection, the letter-format reports must notify a banking organization and its board of the organization's supervisory rating and the confidential nature of the letter. The letter-format report should also set forth the deadline by which the organization must reply to the Reserve Bank, including the organization's plans to address any matters requiring immediate attention or matters requiring attention that are noted in the report.

Questions and Contact Information

Reserve Banks are asked to distribute this letter to their supervisory and examination staff and the state banking departments in their districts. Questions regarding the guidance should be addressed to Kevin Bertsch, Associate Director, Supervisory Oversight, at 202-452-5265; Rick Watkins, Assistant Director, Supervisory Oversight, at 202-452-3421; or Vitus Ukwuoma, Manager, Community Banking Organizations, at 202-452-3163. In addition, questions may be sent via the Board's public website.⁶

Michael S. Gibson
Director

Cross References:

- SR letter 13-8 / CA letter 13-5, "Extension of the Use of Indicative Ratings for Savings and Loan Holding Companies"
- SR letter 11-11 / CA letter 11-5, "Supervision of Savings and Loan Holding Companies (SLHCs)"
- SR letter 01-19, "Reports of Examinations of Community Banking Organizations"
- *Bank Holding Company Inspection Manual*, Section 5010, "Procedures for Inspection Report Preparation (Inspection Report References)"

⁶ See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>.