Regional and Community Supervision

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Risk Focused Supervision

• Customized Approach
  – Supervisory focus on areas of greatest risk to institutions

• Efficient Process
  – Increased emphasis on planning and off-site surveillance
  – Leverage internal risk control functions
  – Increased coordination with other regulatory authorities
  – Focus on assessing management processes with targeted transaction testing

• Net Result
  – Higher quality supervisory reviews
  – Streamlined reports with quick delivery to company
Off-site Monitoring

- Identify issues and trends affecting First District institutions
- Identify significant changes in the risk profile of individual institutions
- Support examination process in gathering and analyzing data
- Peer group analysis and the identification of outliers
On-site Supervisory Process

- Leverage off-site monitoring activities
- Tailor the scope of review to focus on high risk areas
- Match the skill sets of examiners assigned to the risk profile of the institution
- Emphasis on strong communication throughout the examination (No surprises)
Key Areas of Supervisory Review

• Corporate structure and governance
• Risk management processes
• Enterprise-wide risk exposures
• Compliance with laws and regulations
• Financial Condition
  – Capital adequacy
  – Asset Quality
  – Earnings
  – Funding and liquidity
• Information technology
• Strategic planning
Integrated Supervisory Process

- Process that assesses and considers the effects of all risks of an organization.
- Effects of all disciplines (safety and soundness, consumer compliance, fiduciary and information technology) are relevant and considered when assigning the overall financial and risk management ratings.
- Increases efficiency and reduces regulatory burden.
- Logistical and scheduling considerations require flexibility.
Ongoing Supervision/Outreach

- A Reserve Bank representative is assigned to each institution and serves as the primary point of contact with regard to supervisory and regulatory matters
- Examiners’ “assistance visits”
- Reserve Bank sponsored conferences/events
- Participation in local/national banking conferences as subject matter experts in a number of emerging issues
Gramm-Leach-Bliley Act (GLBA)

- Enacted November 12, 1999
- Eliminates depression-era restrictions separating investment banking from commercial banking
- Permits financial holding companies (FHCs)
- Expands powers for banks
- Privacy provisions
- Appoints Federal Reserve as umbrella supervisor -- focus on a consolidated, group-wide analysis to ensure that the FHC is operated in a sound manner so that its financial condition does not threaten the viability of affiliated depository institutions.
FHC Qualifications

• To qualify as an FHC, a BHC must:
  – file a declaration with the Federal Reserve
  – maintain all depository institution (DI) subsidiaries well-capitalized and well-managed
  – maintain at least a satisfactory CRA rating for each insured DI subsidiary
FHCs Overview

• Permissible activities for FHCs include:
  – securities underwriting and dealing
  – serving as an insurance agent and insurance underwriter
  – acting as a futures commission merchant
  – engaging in merchant banking
  – participating in other activities financial in nature or incidental to financial activities or complementary to financial activities
FHCs Overview (Continued)

- Nationally, 667 domestic BHCs and 46 FBOs have formed FHCs (as of 12/31/01)
- Of the domestic FHCs
  - 462 have assets < $500 million
  - 62 have assets >$500 million and < $1 billion
  - 91 have assets >$1 billion and < $15 billion
  - 52 have assets > $15 billion
- Most FHCs have not significantly changed their activities or risk profiles
Questions?