BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION AND REGULATION

SR 13-21

December 17, 2013

Revised December 16, 2022

TO THE OFFICER IN CHARGE OF SUPERVISION AT EACH FEDERAL RESERVE BANK AND TO HOLDING COMPANIES WITH LESS THAN $10 BILLION IN TOTAL CONSOLIDATED ASSETS

Revision history:

As of December 16, 2022, this letter was revised to modify its applicability to holding companies supervised by the Federal Reserve with less than $10 billion in total consolidated assets. Previously, this letter applied to the supervision of holding companies with $10 billion or less in total consolidated assets. This modification was made to better align with the supervisory portfolio definitions described on the Board's public website.

On March 6, 2019, this letter and attachment were updated to modify inspection frequency and scope expectations for holding companies with total consolidated assets between $1 billion and $3 billion. The inspection frequency and scope expectations were modified for this population of holding companies to align with updated statutory requirements as authorized by the Economic Growth, Regulatory Relief, and Consumer Protection Act. The Act authorized an increase in the asset threshold from less than $1 billion to less than $3 billion for the examination frequency of insured depository institutions (12 CFR 208.64) and the Board's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (12 CFR Appendix C to Part 225). References were also updated to reflect that non-commercial and non-insurance SLHCs are assigned RFI ratings, effective February 1, 2019.

SUBJECT: Inspection Frequency and Scope Expectations for Bank Holding Companies and Savings and Loan Holding Companies that are Community Banking Organizations

Applicability: This letter applies to bank holding companies (BHCs) and savings and loan holding companies (SLHCs) with less than $10 billion in total consolidated assets.

The Federal Reserve relies on periodic on- and off-site inspections to assess the safety and soundness of supervised BHCs and SLHCs (hereafter referred to as holding companies).

This SR letter updates the minimum inspection frequency and scope expectations for supervised holding companies with of less[1] than $10 billion in total consolidated assets to:

- Conform inspection frequency and scope expectations for SLHCs with less than $10 billion in total consolidated assets to those applicable to BHCs of the same size;
- Clarify the scoping expectations for targeted inspections conducted at holding companies with total consolidated assets between $3 billion and less than $10 billion; and
- Modify the expectations for targeted inspections for "3," "4," and "5"-rated holding companies with total consolidated assets between $3 billion and less than $10 billion.

These frequency and scope expectations vary depending on whether a holding company has been designated "complex," with more complicated holding companies subject to more frequent and in-depth review. If needed for supervisory purposes, Reserve Banks may inspect a holding company with greater frequency and scope than described in this letter.

Definition of "Complex" Holding Companies

The determination of whether a holding company is "complex" should be made at least annually by the responsible Reserve Bank. Utilizing surveillance screens and other information obtained through supervisory or applications processes, Reserve Banks should update the complexity designation of a company as its activities or condition changes. The determination of a holding company's complexity should take into account a number of factors. These factors include the size and structure of the company; the extent of intercompany transactions between insured depository institution subsidiaries and the holding company or uninsured subsidiaries of the holding company; the risk, scale, and complexity of activities of any nondepository subsidiaries;[2] and the degree of leverage at the holding company, including the extent of its debt outstanding to the public. Companies should also be designated "complex" if material risk management processes for the holding company and its affiliates are consolidated at the parent company.

Supervision and Surveillance Approach

The frequency and scope of on- and off-site inspections should be adjusted based on the results of examinations of a company's depository institution subsidiaries and off-site quarterly surveillance. Whether the inspection is conducted on- or off-site will depend on the level and nature of the risks involved, the holding company's ability to manage those risks, and the Reserve Bank's ability to acquire the necessary information to analyze the activity off-site. If information obtained off-site is not sufficient for the Reserve Bank to determine the condition or assess the activity of the company to assign a rating, the Reserve Bank should conduct an on-site inspection (full-scope or targeted, as appropriate).

To facilitate prompt follow-up on changes in a company's performance and condition, the Federal Reserve maintains distinct surveillance programs for small holding companies (less

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[1] With the issuance of this letter, SR letter 02-1, "Revisions to Bank Holding Company Supervision Procedures for Organizations with Total Consolidated Assets of $5 Billion or Less" is superseded.

[2] For SLHCs, consideration should be given to whether the holding company is a legacy unitary SLHC, and if so, the type and extent of the activities in which the company engages. Guidance on ratings, examination frequency, and complexity classifications for supervised insurance organizations is available in SR letter 22-8, "Framework for the Supervision of Insurance Organizations."

than $3 billion in total consolidated assets) and larger holding companies. Surveillance screens for holding companies with $3 billion or more in total consolidated assets focus on identifying those companies reporting financial results that seem to be inconsistent with their current supervisory ratings, as well as activities conducted outside of depository institution subsidiaries. For small holding companies, quarterly surveillance screens focus on the identification of potential parent company and nondepository subsidiary issues that may adversely affect affiliated depository institutions. In particular, these screens address parent company cash flow, intercompany transactions, parent company leverage, and consolidated capital ratios, when applicable. Screens also assist in maintaining up-to-date complexity designations and are updated periodically to reflect industry trends and conditions as well as changes in regulatory reporting requirements.

Frequency and Scope of Inspections of Holding Companies with Total Consolidated Assets between $3 Billion and Less Than $10 Billion

Complex holding companies in satisfactory condition are inspected at least once per calendar year, while noncomplex holding companies may be inspected every other year. The Reserve Banks should attempt to conduct inspections of holding companies with total consolidated assets between $3 billion and less than $10 billion shortly after the examination of the lead depository subsidiary is completed. These holding companies are assigned a complete RFI rating (component ratings, subcomponent ratings, and a composite rating) regardless of their complexity.[3]

Depending on their condition and complexity, holding companies in this category will receive full-scope inspections or targeted inspections. At a minimum, a full-scope inspection should include sufficient procedures to reach an informed judgment regarding the assigned ratings for the factors addressed by the RFI rating system, evaluating the organization's methods of managing and controlling its risk exposures, and ascertaining whether management and directors fully understand and are actively monitoring the organization's exposure to those risks.

A targeted inspection is designed to focus intensively on one or more specific areas, activities, or problems relating to a holding company. Targeted inspections of holding companies with total consolidated assets between $3 billion and less than $10 billion should focus primarily on parent company leverage, parent company cash flow, nondepository subsidiaries, consolidated capital (when applicable), and intercompany transactions. Targeted inspections may also cover other applicable areas, such as deficient risk management practices at the holding company.

In addition, because compliance with laws and regulations is a statutory factor that must be considered as part of any supervisory review of an application or notice by a holding company, it is important that Reserve Bank staff ensure that compliance with relevant laws and regulations, including any commitments provided by a holding company in connection with an application or notice, is evaluated and addressed in written inspection reports.

Complex Holding Companies

[3] See SR letter 19-4/ CA letter 19-3, "Supervisory Rating Systems for Holding Companies with Consolidated Assets Less Than $100 Billion."

- If a complex holding company is rated composite “1” or “2,” a full-scope, on-site inspection should be completed annually.
- The following apply for a complex holding company rated composite “3,” “4,” or “5.”
    - A full-scope, on-site inspection should be completed annually.
    - If the primary supervisor has conducted an interim examination or changed the rating at the lead depository institution, Reserve Bank staff should conduct an additional targeted inspection and update the holding company rating if necessary. The targeted inspection may be conducted off-site and should start within 60 days of receiving the examination report for the lead depository institution.
- Interim inspections between regular full-scope, on-site inspections are not required. However, additional follow-up, including interim inspections, may be necessary in response to off-site surveillance program results.

Noncomplex Holding Companies

- If a noncomplex holding company is rated composite “1” or “2,” an off-site targeted inspection should be completed every two years.
- The following apply for a noncomplex holding company rated composite “3,” “4,” or “5.”
    - A full-scope, off-site inspection should be completed annually.
    - If the primary supervisor has conducted an interim examination or changed the rating at the lead depository institution, Reserve Bank staff should conduct an additional targeted inspection and update the holding company rating if necessary. This targeted inspection may be conducted off-site and should start within 60 days of receiving the examination report for the lead depository institution.
- Interim inspections between regular full-scope inspections are not required. However, additional follow-up, including interim inspections, may be necessary in response to off-site surveillance program results.

Frequency and Scope of Review of Holding Companies with Less Than $3 Billion in Total Consolidated Assets

The supervisory cycle for these holding companies generally is determined by the examination frequency of the lead depository institution. Complex companies in this size category are assigned a complete RFI rating; others are assigned only a risk management rating and a composite rating. All ratings assigned should be promptly entered into the National Examination Database (NED) and communicated to the company, Board staff, and appropriate state and federal regulatory authorities as soon as possible, but generally no later than 90 days after receipt of the lead depository institution examination report.

Although off-site review of small holding companies will be appropriate in many cases, in some instances it may be necessary to conduct an on-site review for complex holding companies, as discussed below. In those cases when an on-site review is expected, the findings of that review and the assigned ratings should be communicated to the company no later than 120 days after receipt of the lead depository institution examination report. Documentation for the ratings and off-site or on-site reviews will generally consist of the examination reports for the depository institution subsidiaries, a copy of the transmittal letter communicating the ratings to the company, information related to relevant System surveillance results, and memoranda supporting any on-site review conducted. A meeting between Reserve Bank staff and the company's board of directors to communicate findings is not required, but should be conducted when warranted by supervisory concerns.

Complex Holding Companies

- An off-site review should be conducted upon receipt of the lead depository institution examination report or an updated rating from the primary supervisor using surveillance results and relevant supervisory and financial information. If the information obtained off-site is not sufficient for the Reserve Bank to determine the overall condition of the company and to assign a complete RFI rating, the Reserve Bank should conduct an on-site review of the company.
- Any on-site review should be targeted at those areas where additional information or analysis is needed to assign a complete supervisory rating.

Noncomplex Holding Companies

- If all subsidiary depository institutions have a management component rating and a composite supervisory rating of "1" or "2" and no material holding company issues are otherwise indicated, the Reserve Bank should assign only a composite rating and risk management rating to the holding company based on the ratings of the lead depository institution.
- If one or more subsidiary depository institutions have a management component rating or a composite supervisory rating of "3," "4," or "5" or a material holding company issue is otherwise indicated, an off-site review should be completed upon receipt of the lead depository institution examination report or an updated rating from the primary supervisor using surveillance results and relevant supervisory and financial information. If the information obtained off-site is not sufficient for the Reserve Bank to determine the overall condition of the company and to assign a risk management rating and a composite rating, contact the holding company to obtain more information.
- Any off-site review should be targeted, as appropriate, at those areas where additional information or analysis is needed to develop the risk management and composite ratings.

Surveillance Guidelines for Holding Companies with Less Than $3 Billion in Total Consolidated Assets

Upon the receipt and finalization of FR Y-9 data, Board surveillance staff provides each Reserve Bank with the results of the small holding company surveillance screens on a quarterly basis. Reserve Banks should evaluate this information and make a determination as to any appropriate supervisory actions within 45 days of receipt. In doing so, Reserve Banks should determine whether the screen results reveal that the holding company or its affiliates could pose or exacerbate a material risk to a depository institution subsidiary. If the screen results reveal no basis for a significant concern, no further action is needed. Reserve Banks should also review the quarterly FR Y-8 data for transactions between an insured depository institution and its affiliates that are subject to Section 23A of the Federal Reserve Act and Regulation W. Reserve Banks should document their FR Y-8 reviews and follow up on any potential violations.

If a Reserve Bank determines that the results of the quarterly surveillance review reveal the potential for material risk to a depository institution, the Reserve Bank should take appropriate follow-up action within 90 days after initially receiving the surveillance results from the Board. Follow-up actions may include:

- Contacting the holding company to obtain more information;
- Requesting from the holding company a corrective action plan;
- Implementing heightened monitoring procedures; or
- Updating the holding company's complexity designation.

If an on-site review is recommended for a complex holding company, the review should commence within 90 days of the Reserve Bank's initial notification of the surveillance results from the Board. The ratings assigned as a result of the on-site review should be promptly entered into NED and communicated to the company, Board staff, and appropriate state and federal regulatory authorities within 120 days of that notification.

Questions and Contact Information

Questions or comments concerning the inspection activities of holding companies may be sent via the Board's public website.[4]

Michael S. Gibson
Director
Division of Supervision and Regulation

Attachment:

- *Small Holding Company Inspection Scope and Frequency (Revised December 16, 2022)*

Supersedes:

- SR letter 02-1, "Revisions to Bank Holding Company Supervision Procedures for Organizations with Total Consolidated Assets of $5 Billion or Less" (*Inactive*)

Cross-References:

- SR letter 22-8, "Framework for the Supervision of Insurance Organizations"
- SR letter 19-4 / CA letter 19-3, "Supervisory Rating Systems for Holding Companies with Consolidated Assets Less Than $100 Billion"
- SR letter 13-10, "Format for Safety-and-Soundness Reports of Examination and Inspection for Community State Member Banks and Holding Companies Rated Composite '4' or '5'" (*Inactive*)
- SR letter 13-8 / CA letter 13-5, "Extension of the Use of Indicative Ratings for Savings and Loan Holding Companies" (*Inactive*)
- SR letter 11-11 / CA letter 11-5, "Supervision of Savings and Loan Holding Companies (SLHCs)" (*Inactive*)
- SR letter 04-18, "Bank Holding Company Rating System" (*Inactive*)

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4 See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

Small Holding Company Inspection Scope and Frequency[1]

Attachment SR letter 13-21 Revised: December 16, 2022

<table>
<tr><th></th><th>Asset Size</th><th colspan="2">$3 Billion to Less Than $10 Billion</th><th colspan="2">Less than $3 Billion</th></tr>
<tr><th></th><th>Complexity[3]</th><th>Complex</th><th>Noncomplex</th><th>Complex</th><th>Noncomplex</th></tr>
<tr><td></td><td>Type of Rating</td><td>Complete RFI rating</td><td>Complete RFI rating</td><td>Complete RFI rating</td><td>Risk management rating and composite ratings only</td></tr>
<tr><td rowspan="2">Scope and Frequency[2]</td><td>Rating of 1 or 2</td><td>Full scope on-site inspection is expected annually.

Additional targeted follow-up may be needed in response to off-site surveillance program results.</td><td>Off-site targeted inspection is expected every two years.

Additional targeted follow-up may be needed in response to off-site surveillance program results.</td><td rowspan="2">Off-site review should be conducted upon receipt of the lead DI exam report or an updated rating from the primary supervisor using surveillance results and relevant supervisory and financial information. If the information obtained off-site is not sufficient for the Reserve Bank to determine the overall condition of the company and to assign a complete RFI rating, the Reserve Bank should conduct an on-site review of the company.

Any on-site review should be targeted at those areas where additional information or analysis is needed to assign a complete supervisory rating.</td><td>If all subsidiary DIs have a management component rating and a composite supervisory rating of “1” or “2” and no material holding company issues are otherwise indicated, the Reserve Bank should assign only a composite rating and risk management rating to the holding company based on the ratings of the lead DI.</td></tr>
<tr><td>Rating of 3, 4, or 5</td><td>Full scope on-site inspection is expected annually.

If the primary supervisor has conducted an interim examination or changed the rating at the lead depository institution (DI), the Reserve Bank should conduct an additional targeted inspection and update the rating if necessary. The targeted inspection may be conducted off-site and should start within 60 days of receiving the examination report for the lead DI.

Additional targeted follow-up may be needed in response to off-site surveillance program results.</td><td>Full-scope off-site inspection is expected annually.

If the primary supervisor has conducted an interim examination or changed the rating at the lead DI, the Reserve Bank staff should conduct an additional targeted inspection and update the rating if necessary. This targeted inspection may be conducted off-site and should start within 60 days of receiving the examination report for the lead DI.

Additional targeted follow-up may be needed in response to off-site surveillance program results.</td><td>If one or more subsidiary DIs have a management component rating or a composite supervisory rating of “3,” “4,” or “5” or a material holding company issue is otherwise indicated, an off-site review is expected upon receipt of the lead DI exam report or an updated rating from the primary supervisor using surveillance results and relevant supervisory and financial information. If the information obtained off-site is not sufficient for the Reserve Bank to determine the overall condition of the company and to assign a risk management rating and a composite rating, contact the holding company to obtain more information.</td></tr>
<tr><td rowspan="2">Report Expectations</td><td>Rating of 1, 2, or 3</td><td colspan="3">A letter-format report template has been developed for supervision staff completing reports for holding companies that receive a complete RFI rating and have a composite rating of 1, 2, or 3. See the Consolidated Supervision of Regional Holding Companies section of the Bank Holding Company Supervision Manual for more information.</td><td rowspan="2">Off-site reviews culminate in the issuance of a transmittal letter communicating the ratings to the company. Information in the transmittal letter review focuses on parent and nonbanking activities. Examiners also rely on the primary regulator’s work on the subsidiary insured depository institution and relevant surveillance results.</td></tr>
<tr><td>Rating of 4, or 5</td><td colspan="3">Letter-format report of inspection may be prepared as described in the Community Bank Supervision Process section of the Commercial Bank Examination Manual.</td></tr>
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1.) The scope and frequency expectations listed above are applicable to bank holding companies and savings and loan holding companies.
2.) Full-scope inspection covers all areas of interest to the Federal Reserve in depth; targeted inspections will focus intensely on one or two activities. See the *Bank Holding Company Supervision Manual* for more information.
3.) Complexity factors include the size and structure of the company; the extent of intercompany transactions between insured depository institution subsidiaries and the holding company or uninsured subsidiaries of the holding company; the risk, scale and complexity of activities of any nondepository subs; and the degree of leverage at the holding company, including the extent of its debt outstanding to the public. Other factors are also noted in the text of SR letter 13-21 "Inspection Frequency and Scope Expectations for Bank Holding Companies and Savings and Loan Holding Companies that are Community Banking Organizations."