Supervisory Spotlight

A Regulator's Perspective on Issues Facing Western Banks

BANKING SUPERVISION & REGULATION
FEDERAL RESERVE BANK
OF SAN FRANCISCO

April 2015

Greetings!

I watched with interest the media's and markets' reactions when the Federal Open Market Committee (FOMC) removed the word "patient" from its March 19, 2015 statement. The statement was released before Chair Yellen's press conference so the media was well aware of the FOMC decision. However, the press conference afforded Chair Yellen an opportunity to share the committee's thought process and provide a more nuanced explanation of the economic context underpinning the FOMC decision. In the press conference, Chair Yellen remarked, "Just because we removed the word 'patient' from the statement doesn't mean we're going to be 'impatient," succinctly capturing the essence of her message. This exchange reminded me of a very important point: words really do matter, and sometimes a dialogue is more effective in communicating intent than the written word.

We really take the importance of dialogue to heart in Banking Supervision & Regulation. For example, in 2014, my team held or participated in over ninety outreach events with bankers; attorneys, accountants, and consultants; educators; and the informed public. At each of these events, our goal was to share information as well as to gain further knowledge about local issues and concerns. We also expanded our dialogue through one-on-one visits with many supervised institutions outside of the examination process. We have found these discussions to be very productive, and I encourage you to reach out to me or a member of my team if there is an issue that you would like to discuss.

While face-to-face dialogue can be very productive, it can also be very time consuming and costly, particularly in a district as large as ours! This is why we also distribute a variety of writings to share important information more broadly. So, as in the past, I'd like to highlight a couple of our recent articles and publications that you might find informative.

I often reference articles in two Federal Reserve System publications, *Community Banking Connections* and *Consumer Compliance Outlook*, and this Spotlight is no different. The first quarter 2015 *Community Banking Connections* article, Navigating the Great Deposit Migration Through Interest Rate Risk Modeling, reinforces an observation we've made in recent issues of our local publication, First Glance 12L: the significant influx in nonmaturity deposits may present equally significant risks to community bank deposit mix and liquidity when interest rates again rise. This article suggests different ways community bankers can objectively consider how their deposit mix may shift in a rising rate environment. Despite the change in wording in the FOMC's statement, it's not too late to assess the impact of various interest rate scenarios on your bank's deposit mix.

The fourth quarter 2014 *Consumer Compliance Outlook* article, Transitioning from an Intermediate Small Bank to a Large Bank Under the Community Reinvestment Act (CRA), also raised some good points for community banks. First, the asset size definition of "large institutions" under the CRA is very different from the safety and soundness definition. In 2015, the CRA large institution definition encompasses banks and savings associations with assets of at least $1.221 billion as of December 31 of both of the prior two calendar years. Second, the large bank CRA performance standards include three tests—lending, investment, and service–with the large bank lending test receiving a greater weight than either of the other tests in determining the bank's overall CRA rating. Community banks approaching this asset threshold should be aware of the additional record keeping and reporting responsibilities in this area.

Speaking of the CRA, bankers and the public have an opportunity to provide comment on the CRA through May 14, 2015. By way of background, the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) requires that FFIEC, Federal Reserve, FDIC, and OCC regulations be reviewed by the agencies at least once every 10 years to identify outdated, unnecessary, or unduly burdensome regulations imposed on insured depository institutions. The agencies are conducting the current EGRPRA review through a series of public meetings and notices for comment. The first public meeting was held at our Los Angeles branch in December 2014, followed by a meeting in Dallas earlier this year. At least four additional meetings are planned. You can review the video and written transcripts of these meetings on the FFIEC's EGRPRA website. Also, the agencies published the second of a series of requests for comments on specific regulations in February 2015, seeking comment on regulations in three categories: Banking Operations, Capital, and the Community Reinvestment Act. I encourage you and your teams to take advantage of these opportunities to provide constructive input into the discussion on regulatory burden, whether in person or in writing!

As always, I appreciate feedback and suggestions for topics that are of particular concern to your institutions.

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Resources

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