

# Supervisory Spotlight

A Regulator's Perspective on Issues Facing Western Banks

Banking Supervision & Regulation  
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Greetings!

I hope you had an opportunity to take some time to refresh and recharge this summer! Just in case your summer reading list did not include the latest Federal Reserve publications, I thought I'd share some highlights with you.

In the second quarter 2014 issue of [Community Banking Connections](#), Maryann Hunter from the Board of Governors in Washington, DC discussed steps that the Federal Reserve is taking to enhance our community bank supervision program in "[Board Staff Perspective on Community Bank Supervision: One Size Doesn't Fit All](#)." Maryann discusses several initiatives that are underway, and I'd like to highlight two. The first is a longer-term effort that will positively impact community banks: a zero-based review of supervisory guidance. The goal of this initiative is to eliminate guidance that is no longer relevant and revise other guidance to align it with current practices. Another effort will allow our examiners to conduct more exam activities off-site, which will reduce the "hosting" burden on institutions. Of course, as we move additional exam work off-site, it will be more important than ever that banks and the exam teams maintain open and active lines of communication.

Another [Community Banking Connections](#) article that will be relevant to many community banks is "[Bank-Owned Life Insurance: A Primer for Community Banks](#)." In the Twelfth District, we have seen a recent increase in the number of community banks reporting bank-owned life insurance (BOLI) and in the aggregate balances outstanding and level of concentration. In addition to discussing BOLI products, the article provides a good overview of the risks of holding BOLI using the Federal Reserve's risk matrix and discusses the risk-based capital treatment of BOLI under the revised regulatory capital framework.

As discussed in more detail in the second quarter 2014 issue of [First Glance 12L](#), the Twelfth District economy and banking conditions continue their slow improvement and are showing signs of stabilization. District banks collectively are reporting levels of noncurrent loans not seen since 2007, troubled debt restructurings (TDRs) have fallen to five-year lows, and other real estate owned (OREO) levels continue their steady decline. As a result, many community banks have or will soon find themselves in the position of returning a nonaccrual loan to accrual status, re-evaluating TDRs, and/or selling OREO. The [Community Banking Connections](#) article, "[Loan and OREO Accounting Guidance... for the Good Times](#)" provides helpful hints on navigating the accounting rules for these new, but good, challenges.

Finally, it would be hard to let a quarter go by without touching in some way on electronic banking. In recent Spotlights, I discussed [e-banking compliance considerations](#) and the importance of [cybersecurity](#). The second quarter 2014 issue of [Consumer Compliance Outlook](#) takes a different approach to e-banking in the article, "[Consumer Compliance Risk Management for Social Media](#)." You may be surprised to learn that even if your institution does not use Facebook or Twitter, you still may be using social media: the [December 2013 interagency guidance](#) on social media also covers blogs, customer review forums, and virtual worlds. Also, while emails and text messages are not considered social media, they may be otherwise subject to a number of consumer protection laws and regulations.

One last thought... did you know that the Federal Reserve Bank of San Francisco has a presence on social media? You can find us on Twitter at [@SFFedReserve](#) and you can search for us on [Facebook](#) as Federal Reserve Bank of San Francisco. We regularly tweet and post about economic and community development issues and also highlight many System and Reserve Bank publications, including [Supervisory Spotlight](#)!

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

Best regards,

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## Resources

You can view additional *Community Banking Connections* articles and subscribe to an electronic or hard copy of the publication at <http://www.communitybankingconnections.org/>. You can also view additional *Consumer Compliance Outlook* articles and subscribe to that publication at <http://www.philadelphiafed.org/bank-resources/publications/consumer-compliance-outlook/>. Please also consider subscribing to receive notifications of our Reserve Bank's Banking Supervision publications and programs at <http://www.frbsf.org/our-district/subscriptions/banking-supervision-regulation-subscriptions/>.