



Financial Institution Supervision and Credit
FEDERAL RESERVE BANK
OF SAN FRANCISCO

SUPERVISION IN BRIEF

A REGULATOR'S PERSPECTIVE ON ISSUES FACING 12TH DISTRICT BANKS

July 2020



Dear Colleagues,

I trust this note finds you, your families, and your colleagues in good health and fine spirits. I speak for everyone on our Twelfth District Financial Institution Supervision and Credit team when I say, thank you for the flexibility you have shown during our recent economic and health crisis and for working with your borrowers amidst a flurry of new guidance.

As you know, the Federal Reserve has taken actions, including a pause on our onsite exam work and a pivot to enhanced monitoring, to help support financial institutions during these challenging times. After nearly four months, we are ready to restart examination activity and have issued [interagency guidance for safety and soundness](#) (SR 20-15). This guidance recognizes that external events such as COVID-19 can have an adverse impact on a financial institution's condition that may not be reflective of management's efforts to mitigate these risks. The interagency guidance instructs examiners to consider the unique, evolving, and potential long-term nature of the issues confronting institutions and to exercise appropriate flexibility in their supervisory response.

Given the significant uncertainty facing the economy, the focus of our near-term monitoring and upcoming examination work will be to promote capital and liquidity resiliency across the industry and to conduct our work in a way that does not impede the flow of credit. We will take a risk-based approach, focusing on management's assessment of risks and the effectiveness of response plans given the institution's size, complexity, and risk profile. The intent is to provide appropriate recognition of the extent to which weaknesses are caused by the pandemic, assess management's understanding of the pandemic's effects on the institution's operations and financial condition, and the actions being taken to manage those stresses.

As this is interagency guidance, we are currently working with our examiners, the other banking agencies, and the states on training and tools to provide a consistent application of the guidance. We are also restarting all [examination activities offsite](#). We understand there will be some unique challenges to conducting all our supervisory work remotely, but the health and safety of both your staff and our examiners are our top priorities. We ask for your patience as we work through those challenges and commit to conducting our examinations with flexibility, open dialogue, frequent communication, and a risk-focused mindset.

For more details on our path forward, I encourage you to listen to yesterday's [Ask the Fed](#) session hosted by Governor Bowman and Bill Spaniel, the Head of Supervision at the Philadelphia Fed. The keywords from this event were resiliency and uncertainty! You might also want to check out the new issues of both [Consumer Compliance Outlook](#) and [Community Banking Connections](#), where you will find information related to responding to consumer needs, CECL, CARES Act, COVID-19 related loan modifications, and the Federal Reserve's [COVID-19](#) resources page.

Again, thank you for your flexibility, feedback, and continuing role in supporting our economy. Stay safe and be well.

Best regards,

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