

## Examination Process

### Bank Supervision Process

Version 1.0, June 2018

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**References to reputation risk have been removed from this booklet as of March 20, 2025. Removal of reputation risk references is identified by a strikethrough. Refer to OCC Bulletin 2025-4.**

# Contents

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<b>Introduction.....</b>	<b>1</b>
Types of Banks.....	2
Federal Branches and Agencies .....	3
Special Purpose Banks .....	3
Bank Affiliates and Related Organizations.....	4
Bank Supervision Organizational Structure, Roles, and Responsibilities.....	5
Assistant Deputy Comptroller (Community and Midsize Banks) .....	7
Portfolio Managers and Examiners-in-Charge .....	8
Community Banks .....	8
Midsize and Large Banks .....	9
Federal Branches and Agencies.....	9
Portfolio Manager and EIC Responsibilities .....	9
Functional EICs, Team Leaders, and Examination EICs .....	10
Supervisory Office .....	11
<b>Examination Authority and Full-Scope, On-Site Examination Requirement .....</b>	<b>12</b>
De Novo Banks .....	14
Converted Banks .....	14
Service Providers .....	15
Types of Supervisory Activities.....	15
Full-Scope Examinations .....	15
Ongoing Supervision .....	16
Target Examinations .....	16
Specialty Area Considerations .....	16
Information Technology .....	16
Asset Management.....	17
Bank Secrecy Act/Anti-Money Laundering .....	17
Consumer Compliance.....	18
National Flood Insurance Program.....	20
Fair Lending Risk Assessment .....	20
Servicemembers Civil Relief Act .....	20
Community Reinvestment Act.....	20
Municipal and Government Securities Dealers .....	21
Assessment of Audit Functions.....	21
12 CFR 363 Annual Report Review .....	23
Regulatory Ratings.....	23
Risk Assessment System.....	24
Categories of Risk.....	26
Credit Risk.....	26
Interest Rate Risk.....	26
Liquidity Risk .....	26
Price Risk.....	27
Operational Risk .....	27
Compliance Risk.....	27
Strategic Risk.....	28
Reputation Risk .....	28

Relationship Between RAS and Regulatory Ratings .....	29
<b>Risk-Based Supervision Approach.....</b>	<b>30</b>
Core Knowledge.....	31
Core Assessment .....	31
Expanded Procedures .....	32
Verification Procedures.....	32
Supervisory Process .....	32
Planning .....	33
Supervisory Strategy.....	33
Examination Planning.....	35
Coordination With Other Regulators .....	35
Supervisory Activity Components.....	37
Discovery.....	37
Correction .....	38
Monitoring .....	39
Examination Management .....	39
Communication.....	40
Communication During Examinations .....	41
Written Communication .....	42
Meetings With Directors.....	43
Documentation.....	44
OCC’s Supervisory Information Systems .....	44
<b>Supervisory Actions.....</b>	<b>46</b>
Matters Requiring Attention.....	46
Violations of Laws and Regulations .....	48
Enforcement Actions.....	49
Enforcement Actions Against Banks .....	49
Enforcement Actions Against Institution-Affiliated Parties.....	50
Civil Money Penalties.....	51
Reprimand or Supervisory Letter .....	51
Conditions Imposed in Writing.....	52
<b>Other Supervisory Considerations.....</b>	<b>53</b>
Disclosure of Ratings .....	53
Suspected Criminal Violations.....	53
Information Received From an Outside Source.....	54
Appeals Process .....	55
Customer Assistance Group.....	55
Quality Management.....	55
<b>Report of Examination .....</b>	<b>57</b>
Federal Branches and Agencies .....	57
Financial Data .....	58
ROE Sections .....	58
Required Sections .....	60
Cover Page.....	60
Table of Contents.....	60

Examination Conclusions and Comments ..... 61

Management/Administration or Risk Management..... 62

Risk Assessment ..... 62

Signatures of Directors ..... 62

Conditionally Required Sections ..... 62

    Matters Requiring Attention ..... 62

    Compliance With Enforcement Actions ..... 63

    Violations of Laws and Regulations..... 63

    Component Rating Narrative Sections (Except Management  
        or Risk Management Component Rating Sections)..... 65

    Concentrations ..... 65

    Summary of Items Subject to Adverse Classification/Summary of Items  
        Listed as Special Mention (Data Page)..... 66

    Items Subject to Adverse Classification or Listed for Special Mention  
        (Loan Write-Ups)..... 66

Discretionary Sections ..... 67

    Credit Underwriting Weaknesses ..... 67

    Comparative Statements of Financial Condition (Data Page) ..... 67

    Analysis of Earnings (Data Page)..... 68

    Other Supplemental Sections or Pages ..... 68

**Uniform Financial Institutions Rating System (Commonly Known as CAMELS)..... 69**

    Composite CAMELS Ratings ..... 70

    Component Ratings ..... 71

        Capital Adequacy..... 72

        Asset Quality..... 72

        Management..... 74

        Earnings ..... 75

        Liquidity..... 76

        Sensitivity to Market Risk ..... 77

**Uniform Rating System for Information Technology ..... 79**

    Overview ..... 79

    URSIT Composite Ratings..... 80

    URSIT Component Ratings ..... 81

        Audit ..... 81

        Management..... 82

        Development and Acquisition..... 85

        Support and Delivery ..... 86

**Uniform Interagency Trust Rating System ..... 89**

    Overview ..... 89

    UITRS Composite Ratings..... 90

    UITRS Component Ratings ..... 91

        Management..... 91

        Operations, Internal Controls, and Auditing..... 93

        Earnings ..... 94

        Alternate Rating of Earnings ..... 96

        Compliance ..... 97

Asset Management.....	99
<b>Uniform Interagency Consumer Compliance Rating System .....</b>	<b>101</b>
Overview .....	101
Categories of the Consumer Compliance Rating System .....	102
Board and Management Oversight—Assessment Factors.....	103
Compliance Program—Assessment Factors.....	105
Violations of Law and Consumer Harm—Assessment Factors.....	108
Root Cause.....	108
Severity .....	108
Duration .....	108
Pervasiveness.....	109
Evaluating Performance Using the Consumer Compliance Rating Definitions (Consumer Compliance Component Rating).....	110
Assignment of Ratings by Supervisor(s) .....	112
<b>Community Reinvestment Act Rating System.....</b>	<b>113</b>
Small and Intermediate Small Bank Performance Standards.....	114
Overall Rating.....	114
Lending Test (Small and Intermediate Small Banks) .....	115
Community Development Test (Intermediate Small Banks).....	116
Large Bank Performance Standards.....	116
Lending Performance.....	116
Investment Performance .....	118
Large Bank Service Performance .....	119
Wholesale or Limited Purpose Bank Performance Standards.....	120
Strategic Plan Assessment and Rating .....	121
<b>ROCA Rating System.....</b>	<b>122</b>
Overview .....	122
Composite ROCA Rating.....	122
Component Ratings .....	123
Risk Management .....	123
Operational Controls.....	125
Compliance .....	126
Asset Quality.....	126
<b>Appendixes .....</b>	<b>128</b>
Appendix A: Functional Regulation .....	128
Appendix B: Examiner Access to Bank Books and Records.....	131
Appendix C: Glossary .....	132
Appendix D: Abbreviations .....	139
<b>References.....</b>	<b>141</b>
<b>Table of Updates Since Publication.....</b>	<b>149</b>

# Introduction

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The Office of the Comptroller of the Currency (OCC) is responsible for supervising the federal banking system. The OCC's mission is to ensure that national banks, federal savings associations (FSA), and federal branches and agencies of foreign banking organizations<sup>1</sup> (collectively, **banks**<sup>2</sup>) operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. To support this mission, the OCC has prepared the "Bank Supervision Process" booklet of the *Comptroller's Handbook* for use by OCC examiners in connection with their supervision of banks.

This booklet is the central reference for the OCC's bank supervision policy, explains the OCC's risk-based bank supervision approach, and discusses the general supervisory process for all types of OCC-supervised banks. Examiners should use this booklet in conjunction with the "Community Bank Supervision," "Federal Branches and Agencies Supervision," "Large Bank Supervision," and other booklets of the *Comptroller's Handbook*, as applicable.<sup>3</sup> Each bank is different and may present specific issues. Accordingly, examiners should apply the guidance in this booklet consistent with each bank's individual circumstances. When it is necessary to distinguish among them, types of banks are referred to separately.<sup>4</sup>

High-quality supervision is essential to the OCC's ability to carry out its mission. High-quality bank supervision

- accounts for the unique characteristics of each bank, including size and risk profile.
- is ongoing and dynamic, responds to changing risks at each bank, and is sensitive to evolving market conditions and regulatory changes.
- uses OCC resources efficiently and effectively by allocating the greatest resources to the areas of highest risk.
- assesses whether each bank has a sound risk management system consisting of policies, processes, personnel, and control systems to measure, monitor, and control risk.
- recognizes and appropriately assesses the risks to each bank from all significant lines of business, including those subject to the primary supervision of another regulator.

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<sup>1</sup> Generally, references to "national banks" throughout this booklet also apply to federal branches and agencies of foreign banking organizations unless otherwise specified. Refer to the "Federal Branches and Agencies Supervision" booklet of the *Comptroller's Handbook* for more information regarding applicability of laws, regulations, and guidance to federal branches and agencies. (Footnote added in version 1.1)

<sup>2</sup> Terms in **boldface** type throughout the body of this booklet are defined in appendix C, "Glossary."

<sup>3</sup> The OCC uses the "Large Bank Supervision" booklet to also supervise midsize banks.

<sup>4</sup> This booklet contains interagency content, such as the uniform rating systems and excerpts from other interagency policy statements. Wherever interagency content is directly incorporated, the term "institution" or "financial institution" may be used rather than "bank."

- recognizes the role of functional regulators and promotes effective coordination with them.
- is based on clear communication of bankers' and examiners' responsibilities.
- includes ongoing and effective communication with bank management and the **board of directors (board)**.<sup>5</sup>
- is performed by examiners who have the knowledge and skills to accurately evaluate banks' conditions, identify risks, and communicate effectively with bank personnel, OCC personnel, and other regulators.
- empowers examiners to use judgment and make sound decisions.
- identifies **deficient practices** and **violations** (collectively, **deficiencies**) in a timely manner and requires banks to take corrective action before the deficiencies affect their conditions.

## Types of Banks

The types of banks the OCC supervises, and the products and services offered by banks, are diverse. Some banks are full-service banks, and others have special purpose operations. Most full-service banks are in the business of taking deposits and making loans. Banks are expected to offer products and services that meet the needs of the communities in which they do business and the needs of low- and moderate-income individuals. Banks are expected to offer products and services in a manner that promotes fair access to financial services, treats customers fairly, and complies with applicable laws and regulations. (Updated in version 1.1)

For supervisory purposes, the OCC designates banks as community, midsize, or large. These designations are based on a bank's asset size<sup>6</sup> and factors that affect its risk profile and complexity. When making this designation, the OCC considers, in addition to asset size, whether

- the bank and its affiliate charters are part of a much larger banking organization (e.g., under a bank holding company or savings and loan holding company).
- supervision requires extensive coordination with other regulators.
- the bank or company
  - is a dominant player within its market.
  - performs significant international activities.
  - owns unique subsidiaries.
  - offers high-risk, specialized, or complex products or services.
  - conducts sophisticated capital market activities.
  - has large asset management operations.

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<sup>5</sup> For purposes of this booklet, the term "board" generally includes designated board committees.

<sup>6</sup> Community banks generally are up to \$10 billion in total assets, midsize banks generally are up to \$50 billion in total assets, and large banks generally are over \$50 billion in total assets.

Banks may also fall into one or more of the following categories. Refer to the “Charters” booklet of the *Comptroller’s Licensing Manual* for more information regarding types of banks.

## Federal Branches and Agencies

**Federal branches and agencies** are offices of foreign banking organizations (FBO) licensed by the OCC to conduct banking business in the United States. Because of the global aspect and complexity of their operations, federal branches and agencies, regardless of asset size, generally follow the OCC’s large bank supervision policy. Some aspects of their supervision, however, are similar to the OCC’s community bank supervision process. For more information, refer to the “Federal Branches and Agencies Supervision” booklet of the *Comptroller’s Handbook*.

## Special Purpose Banks

**Special purpose banks** generally offer a small number of products, target a limited customer base, incorporate nontraditional elements, or have narrowly targeted business plans. The following are examples of special purpose banks:

- **Bankers’ banks** are owned exclusively, except for directors’ qualifying shares, by other depository institutions or depository institution holding companies. Bankers’ bank activities are limited to providing (1) services to or for other depository institutions, their holding companies, or the officers, directors, and employees of such institutions; and (2) correspondent banking services at the request of other depository institutions or their holding companies.
- **Cash management banks** are normally affiliated with a bank through a bank holding company or savings and loan holding company structure with other banks that engage in a full array of commercial banking activities. A cash management bank provides certain financial services to its large corporate customers.
- **Community development banks** have a stated mission to primarily benefit the underserved communities in which the bank is chartered to conduct business.
- **Credit card banks** have a primary business line of issuing credit cards, generating credit card receivables, and engaging in activities incidental to the credit card business. Credit card banks are insured by the Federal Deposit Insurance Corporation (FDIC). Credit card banks typically meet the following criteria:
  - These banks engage exclusively or predominantly in credit card activities and are directly owned by holding companies or individual shareholders. Credit card banks may legally offer additional commercial banking services, such as deposit accounts for these banks’ employees, unless prohibited by the bank’s articles of association.
  - Competitive Equality Banking Act (CEBA) credit card banks are owned by nonbank holding companies, commercial entities, or banks. CEBA credit card banks must



- qualify for the exemption created by the CEBA amendment to the Bank Holding Company Act.<sup>7</sup>
- **Trust banks** limit their services to fiduciary activities and activities incidental to the fiduciary business. Many trust banks are not insured by the FDIC, and FDIC insurance is not a requirement for certain national bank trust bank charters. All trust-only FSAs are FDIC-insured. A national trust bank is exempt from the definition of “bank” in the Bank Holding Company Act, provided the trust bank meets certain conditions.<sup>8</sup> The definition of “savings and loan holding company” excludes a company that controls an FSA that functions solely in a trust or fiduciary capacity.<sup>9</sup> Accordingly, some trust banks are independent, stand-alone entities, while others are subsidiaries of, or affiliated with, commercial banks, bank holding companies, savings and loan holding companies, financial service companies, or other business enterprises. Trust banks are generally designated as community, midsize, or large, based on their on-balance-sheet assets, unless the trust bank is affiliated with another OCC-chartered bank, such as a midsize or large bank.

## Bank Affiliates and Related Organizations

Many banks are part of larger diversified financial organizations with multiple entities. **Related organizations** refers to various types of entities related to a bank, typically by common ownership or control. Generally, related organizations are **affiliates** or subsidiaries.<sup>10</sup>

To differentiate among types of affiliates, the OCC uses the terms “**lead OCC-supervised bank**,” “**significant OCC-supervised affiliate**,” and “**smaller OCC-supervised affiliate**.” A “lead OCC-supervised bank” is the OCC-supervised affiliate within a multibank organization with the most assets, unless the company designates another bank as “lead.” A “significant OCC-supervised affiliate” is an OCC-supervised bank affiliate that has assets of \$1 billion or more. A “smaller OCC-supervised affiliate” is an OCC-supervised bank affiliate that has assets of less than \$1 billion.

A **functionally regulated affiliate (FRA)** is a bank affiliate (including a bank operating subsidiary) whose primary regulator is the U.S. Securities and Exchange Commission (SEC), a state insurance commissioner, or the U.S. Commodity Futures Trading Commission (CFTC). FRAs include

- SEC-registered securities broker-dealers.

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<sup>7</sup> Refer to 12 USC 1841(c)(2)(F).

<sup>8</sup> Refer to 12 USC 1841(c)(1) and (c)(2)(D).

<sup>9</sup> Refer to 12 USC 1467a(a)(1)(D)(ii)(II).

<sup>10</sup> Refer to the “Related Organizations” booklet of the *Comptroller’s Handbook* (national banks); OTS Examination Handbook section 380, “Transactions With Affiliates and Insiders” (FSAs); and OTS Examination Handbook section 730, “Related Organizations” (FSAs), for more information.

- SEC or state-registered investment advisers.
- SEC-registered investment companies (e.g., mutual funds).
- state-supervised insurance companies and agencies.
- CFTC-registered or regulated entities (e.g., futures commission merchants, commodity pools, commodity pool operators, or commodities trading advisors).

A **chain banking group** is two or more independently chartered financial institutions, including at least one federally chartered bank, controlled either directly or indirectly by the same individual, family, or group of individuals closely associated in their business dealings. A registered multibank holding company and its subsidiary banks are generally not considered to be a chain banking organization unless the holding company is linked to other banking organizations through common control.

The OCC assesses the risks posed to banks by related organizations to the extent necessary to reach conclusions about the banks the OCC supervises. This approach recognizes that risks present in banks may be mitigated or increased by activities in related organizations.

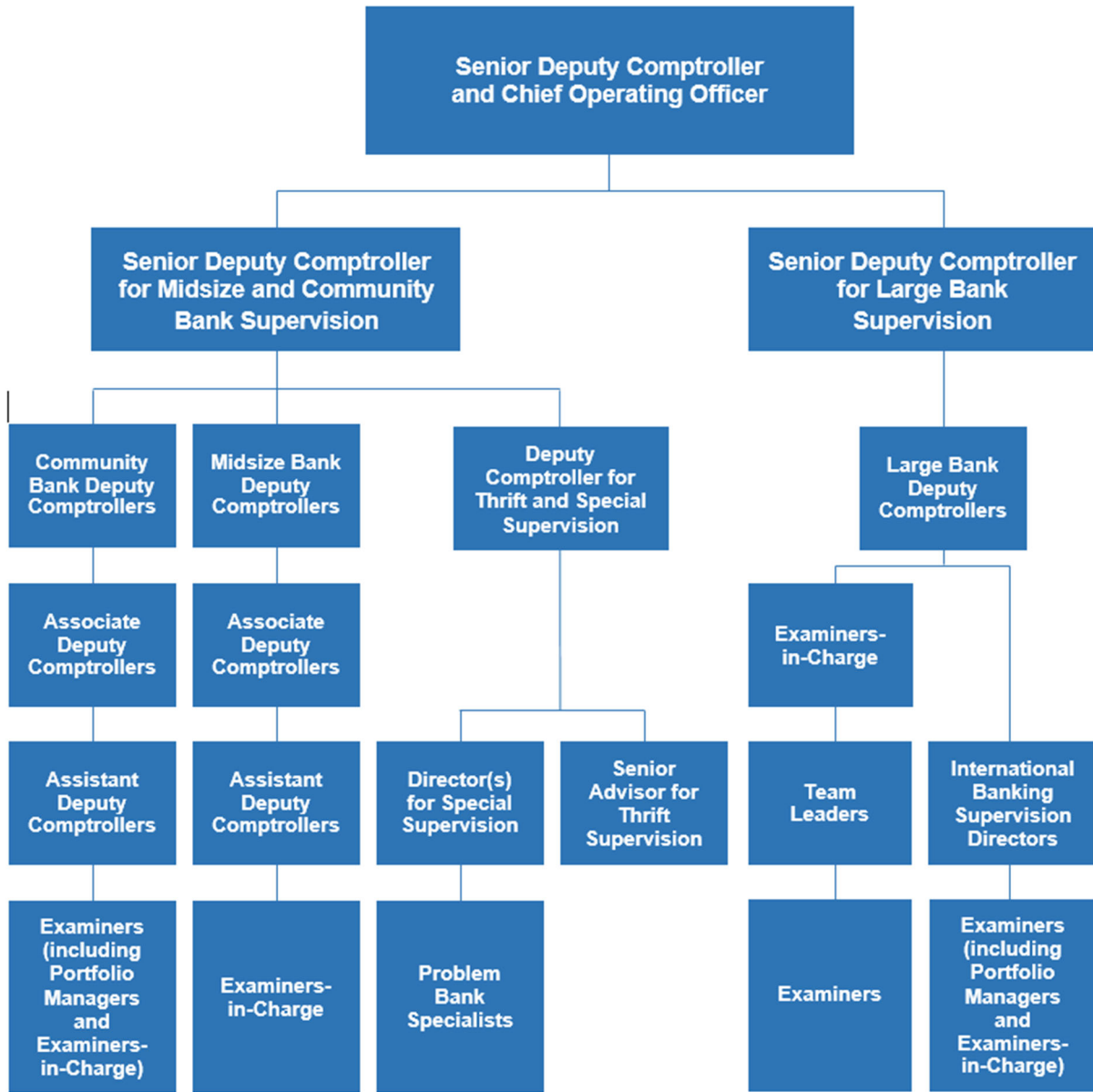
Refer to the “Coordination With Other Regulators” section of this booklet and appendix A, “Functional Regulation,” for more information regarding supervision of related organizations and FRAs.

## Bank Supervision Organizational Structure, Roles, and Responsibilities

(Section updated in version 1.1)

The OCC’s organizational structure is designed for effective supervision of the different types of banks, with oversight by the OCC’s Senior Deputy Comptroller and Chief Operating Officer (COO) for coordination and integration of the OCC’s bank supervision activities.

Figure 1: The OCC's Organizational Structure for Supervision



The Senior Deputy Comptrollers for Midsize and Community Bank Supervision (MCBS) and Large Bank Supervision (LBS) report to the COO. The OCC's Bank Supervision Policy Department, Economics Department, and Office of Innovation also report to the COO.

Midsize and community banks are supervised under the Senior Deputy Comptroller for MCBS. The midsize deputy comptrollers are each supported by one or more associate deputy comptrollers (AsDC). The community bank deputy comptrollers include one for each district. There is also a Deputy Comptroller for Thrift Supervision and Special Supervision. Each district deputy comptroller is supported by one or more AsDCs. The Deputy Comptroller for Thrift Supervision and Special Supervision is supported by one or more directors for special supervision and a Senior Advisor for Thrift Supervision. Each of the MCBS deputy

comptrollers is responsible for the supervision of a portfolio of banks. The Deputy Comptroller for Thrift Supervision and Special Supervision is additionally responsible for overseeing the consistent integration and application of supervisory policies for FSAs into the OCC's mission.<sup>11</sup>

Large banks and federal branches and agencies are supervised under the Senior Deputy Comptroller for LBS. Large bank deputy comptrollers are responsible for the following (responsibilities of individual deputy comptrollers vary by position):

- Supervising a portfolio of the largest banks supervised by the OCC.
- Supervising foreign-owned large banks and federal branches and agencies supervised through the International Banking Supervision divisions in New York, OCC Headquarters, and the OCC's London Office.
- Overseeing the lead expert group, which includes information systems.

## Assistant Deputy Comptroller (Community and Midsize Banks)

Assistant deputy comptrollers (ADC) oversee the supervision of a portfolio of community banks, midsize banks, trust banks, or service providers. ADCs also manage the team of examiners and supervision support staff that compose a field office. The director(s) for special supervision has similar supervision and oversight responsibilities as an ADC for a portfolio of problem banks but relies on an ADC to manage and assign examination staff. ADCs

- maintain an awareness of trends within the financial services industry and an understanding of risks within their assigned portfolios of banks.
- approve appropriate supervisory strategies for individual banks.
- take actions within their authority to require banks to address deficiencies, including recommending enforcement actions when necessary.
- supervise personnel directly responsible for bank supervision.
- consider training and development needs of assigned personnel and how these will be met.
- direct planning, scheduling, and monitoring of supervisory activities for
  - effective use of resources.
  - consistency with identified priorities.
  - compliance with OCC policies.
- assign portfolio managers and examiners-in-charge (EIC) to banks or groups of banks, as applicable.
- review and concur with examination conclusions before conclusions are finalized.
- ensure that the OCC's supervisory information systems reflect the current risk profiles and conditions of assigned banks.

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<sup>11</sup> Pursuant to 12 USC 4b, the Comptroller of the Currency shall designate a deputy comptroller, who shall be responsible for the supervision and examination of FSAs. The Deputy Comptroller for Thrift Supervision and Special Supervision fulfills the role of supervising and examining FSAs by overseeing the consistent application of supervisory policies for FSAs.

- attend management exit meetings and board meetings to promote consistent and effective communication. ADCs may appoint designees to attend exit meetings and board meetings, as appropriate.
- maintain communication with points of contact at other regulatory agencies and coordinate requests from other regulatory agencies (foreign and domestic) through the appropriate deputy comptroller or AsDC. If another agency participates jointly in an examination, the ADC should ensure that the supervisory strategy includes sufficient detail regarding each agency's roles and responsibilities so that unnecessary duplication can be avoided.
- countersign reports of examination (ROE).
- sign or countersign other correspondence, including supervisory letters.<sup>12</sup>

## Portfolio Managers and Examiners-in-Charge

To facilitate ongoing and consistent supervision, the OCC assigns responsibility for each bank to a commissioned national bank examiner (NBE) or federal thrift regulator (FTR). To be “commissioned” means that the examiner successfully completed the OCC’s or former Office of Thrift Supervision’s (OTS) internal certification program. The Uniform Commission Examination is the OCC’s internal certification program. Examiners who successfully complete the Uniform Commission Examination meet the high standards of technical knowledge, skills, and professionalism required of OCC examiners. Many examiners are cross-credentialed as both an NBE and FTR. Examiners must be commissioned to serve in an unsupervised capacity as EICs and sign banks’ ROEs.<sup>13</sup>

## Community Banks

Each community bank is assigned a portfolio manager who serves as the OCC’s primary contact for bank management and the board on an ongoing basis. Portfolio managers should generally be commissioned examiners. In their dialogues with bank management, portfolio managers develop a high level of understanding of banks’ activities that guides the OCC’s supervisory strategy for each bank. Portfolio managers understand the local economy and operating conditions and risks in banks’ markets and can discuss recently implemented or proposed regulations, trends in current examination findings, and other current topics. OCC specialists provide assistance to portfolio managers as necessary. A community bank’s portfolio manager may also be the EIC of the bank’s examination(s), or the EIC may be another commissioned examiner.

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<sup>12</sup> In some cases, this may be delegated to a portfolio manager, EIC, or another commissioned examiner.

<sup>13</sup> After the integration of the former OTS into the OCC, the OCC implemented a cross-credentialed process to allow examiners to become commissioned as both an NBE and FTR. Only examiners commissioned as NBEs may sign ROEs of national banks, and only examiners commissioned as FTRs may sign ROEs of FSAs. Cross-credentialed examiners may sign ROEs of both national banks and FSAs. The OCC’s Uniform Commission Examination was revised to include national banks and FSAs, and all examiners commissioned since 2013 are cross-credentialed.

The appropriate ADC may assign supervisory responsibility for a community bank to a noncommissioned examiner who is supervised by a commissioned examiner or the ADC. Appointing noncommissioned examiners to acting portfolio manager or acting EIC roles can help examiners develop skills and promotes efficient and effective use of OCC resources. A commissioned examiner or ADC supervising a noncommissioned acting EIC or acting portfolio manager must

- review the accuracy of the examiner’s work before findings are communicated to bank management.
- attend exit and board meetings with the examiner to provide for consistent and effective communication.
- sign ROEs and supervisory letters.

## **Midsized and Large Banks**

Midsized and large banks are not assigned portfolio managers. Rather, an EIC is assigned full time to each midsized and large bank to provide day-to-day supervision with the help of teams of examiners. Midsized and large bank EICs maintain an awareness of trends within the banking industry and the financial services marketplace, and deal with a variety of issues that pose risks to the banks they examine. EICs for midsized banks report to ADCs, while EICs for large banks report to deputy comptrollers, as shown in figure 1. The OCC rotates EICs of midsized and large banks periodically to promote objectivity, cross-training, and growth in expertise among examiners.

## **Federal Branches and Agencies**

Portfolio managers are assigned to smaller federal branches and agencies, while full-time EICs are assigned to larger federal branches and agencies. If the parent company of the federal branch or agency has a related large bank affiliate, the examination team may also report to the EIC of the related large bank. Portfolio managers and EICs of federal branches and agencies report to one of the directors of International Banking Supervision or the EIC of a related large bank, as applicable.

## **Portfolio Manager and EIC Responsibilities**

Whether an examiner supervises an individual bank or a portfolio of banks, the supervisory responsibilities are consistent. The portfolio manager or EIC

- maintains an up-to-date understanding of the core knowledge, condition, and risk profile of each assigned bank.
- identifies risks and responds in an appropriate and timely manner.
- considers the risks posed by significant activities or affiliates, including affiliates or lines of business subject to the primary supervision of another regulator, in determining the bank’s ratings and risk assessment. While the portfolio manager or EIC is not involved in the day-to-day supervision of affiliates or lines of business supervised by other functional regulators, he or she should assess the OCC-supervised bank’s risks from those affiliates

or lines of business and the effectiveness of the OCC-supervised bank's risk management systems in controlling those risks.

- maintains responsibility for ongoing supervision of the bank and oversees the execution of examination plans. The portfolio manager or EIC must obtain approval from the supervisory office to materially change examination activities outlined in the supervisory strategy and must document the rationale for such changes in the OCC's supervisory information systems.
- reviews and concurs with examination conclusions before conclusions are finalized or submitted to the appropriate signer for review.
- updates the OCC's supervisory information systems to reflect the bank's current risk profile and condition.
- maintains ongoing and effective communication with bank management and the board.
- keeps the supervisory office informed about the status of each assigned bank.
- consistent with business unit or supervisory office procedures, establishes and maintains points of contact with domestic and foreign banking supervisors and other regulatory agencies, as appropriate. Examiners should work with these points of contact to supervise OCC-supervised banks by facilitating the exchange of necessary information, coordinating supervisory activities, and communicating critical issues to the appropriate regulatory agency.<sup>14</sup>
- implements OCC and supervisory office directives.
- takes actions within his or her authority to require banks to address deficiencies, or recommends such actions to the supervisory office.<sup>15</sup>
- follows up on bank management's actions to address deficiencies.
- follows up on outstanding enforcement actions by assessing bank management and the board's effectiveness in correcting the deficiencies and determining whether the bank is in compliance with the action.<sup>16</sup>

## Functional EICs, Team Leaders, and Examination EICs

The OCC may designate functional EICs (FEIC) to conduct or oversee examinations of particular areas or functions of a bank (e.g., commercial credit, consumer compliance, and capital markets). FEICs are typically assigned to larger community banks and midsize banks.

Because of the vast operating scope of large banks, the OCC assigns examination teams to work full time at the largest and most complex banks. In large banks, team leaders are seasoned examiners who oversee supervision of functional areas and manage staffs of dedicated examiners. Team leaders assigned to community bank field offices oversee the development of precommissioned examiners.

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<sup>14</sup> For community banks, the supervisory office, rather than the portfolio manager or EIC, may establish and maintain points of contact with other regulatory agencies.

<sup>15</sup> If the portfolio manager or EIC has concerns about activities subject to the primary supervision of another regulator, he or she should contact the appropriate ADC or deputy comptroller to coordinate the appropriate supervisory response.

<sup>16</sup> Refer to the "Enforcement Actions" section of this booklet for more information.

Each examination activity has an examiner assigned as the EIC for the activity. For instance, in midsize and large banks that have designated EICs for the bank, an FEIC or another examiner may serve as the EIC of a particular examination activity (e.g., a target examination).

## Supervisory Office

For community and midsize banks, the OCC supervisory office supports and oversees the portfolio manager and EIC. Personnel who carry out these support and oversight responsibilities include supervisory office staff and one of the following:

- The ADC, if the bank is a community or midsize bank.
- The Director for Special Supervision, if the bank is assigned to the Special Supervision division.

For large banks, including large federal branches with a related large bank affiliate, the supervisory office includes the EIC or deputy comptroller, depending on the circumstances. The EIC provides oversight and makes decisions on many matters, while some decisions require approval by the deputy comptroller or a higher authority.

For federal branches and agencies supervised within the International Banking Supervision Division, the supervisory office includes the EIC (for the larger and more complex federal branches and agencies), Director for International Banking Supervision, or deputy comptroller, depending on the circumstances. The EIC and Director for International Banking Supervision provide oversight and make decisions on many matters, while some decisions require approval by the deputy comptroller or a higher authority.

Examiners should follow internal OCC processes for delegations of authority.



# Examination Authority and Full-Scope, On-Site Examination Requirement

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(Section updated in version 1.1)

The OCC examines banks pursuant to the authority conferred by 12 USC 481 (national banks), 12 USC 1463 (FSAs), 12 USC 1464 (FSAs), and the requirements of 12 USC 1820(d).<sup>17</sup> The OCC examines federal branches and agencies pursuant to the authority conferred by 12 USC 3105(c)(1)(C). 12 USC 481 (national banks) and 12 USC 1464(d)(1)(B) (FSAs) authorize OCC examiners to make a thorough examination of a bank, which includes prompt and unrestricted access to a bank’s officers, directors, and employees as well as to a bank’s books, records, or documents of any type. Refer to appendix B of this booklet for more information regarding examiners’ access to banks’ books and records.

Banks must receive a **full-scope, on-site examination** every 12 or 18 months.<sup>18</sup> The required full-scope, on-site examination frequency is known as the **supervisory cycle**. Refer to table 1 for the eligibility requirements for the 18-month supervisory cycle and to the “Full-Scope Examinations” section of this booklet for the OCC’s definition of and requirements for the required full-scope, on-site examination.

The statutory and regulatory requirements set the maximum supervisory cycle length and do not limit the OCC’s authority to examine a bank as frequently as the OCC deems appropriate.<sup>19</sup> A potential or actual adverse change in the bank’s condition or risk profile, a change in bank control, or an OCC scheduling conflict are examples of when the OCC could determine it would be appropriate to examine the bank more frequently. Before increasing the frequency of examinations due to a scheduling conflict, supervisory offices should consider how OCC resources can be used most efficiently and coordinate with the bank to minimize burden.

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<sup>17</sup> Refer also to 12 USC 1467(h) (FSAs) and 12 USC 1468b (FSAs).

<sup>18</sup> 12 USC 1820(d) requires the OCC to conduct a full-scope, on-site examination of each insured depository institution every 12 or 18 months. The OCC applies this statutory examination requirement to all types of banks (federal branches and agencies excepted), regardless of FDIC-insured status, in 12 CFR 4.6. The frequency of on-site examinations for federal branches and agencies is prescribed by 12 USC 3105(c) and 12 CFR 4.7. 12 CFR 4.6 and 4.7 were amended to implement section 210 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (Pub. L. 115-174). Refer to OCC Bulletin 2019-3, “Expanded Examination Cycle Eligibility: Final Rule.”

<sup>19</sup> Refer to 12 CFR 4.6(c) (national banks and FSAs, except federal branches and agencies) and 12 CFR 4.7(c) (federal branches and agencies).

Table 1: Extended Supervisory Cycle Requirements

<b>National banks and FSAs (12 USC 1820(d)(4) and 12 CFR 4.6)</b>	<b>Federal branches and agencies (12 USC 3105(c)(1)(C) and 12 CFR 4.7)</b>
<p>To be eligible for an 18-month supervisory cycle, the bank must meet all of the following criteria:</p> <ul style="list-style-type: none"> <li>• The bank has less than \$3 billion in total assets.</li> <li>• The bank is well capitalized as defined in 12 CFR 6.</li> <li>• At its most recent examination, the OCC <ul style="list-style-type: none"> <li>– assigned the bank a rating of 1 or 2 for management under the CAMELS rating system.</li> <li>– assigned the bank a composite rating of 1 or 2 under the CAMELS rating system.</li> </ul> </li> <li>• The bank is not subject to a formal enforcement proceeding or order by the OCC, Federal Reserve System, FDIC, or former OTS.</li> <li>• No person acquired control of the bank during the preceding 12-month period in which a full-scope, on-site examination would have been required.</li> </ul>	<p>To be eligible for an 18-month supervisory cycle, the federal branch or agency must meet all of the following criteria:</p> <ul style="list-style-type: none"> <li>• The federal branch or agency has less than \$3 billion in total assets.</li> <li>• The federal branch or agency received a composite ROCA supervisory rating of 1 or 2 at its most recent examination.</li> <li>• The foreign bank's most recently reported capital adequacy position consists of, or is equivalent to, common equity tier 1, tier 1, and total risk-based capital ratios that satisfy the definition of "well capitalized" set forth at 12 CFR 6.4, on a consolidated basis; or the branch or agency has maintained on a daily basis, over the past three quarters, eligible assets in an amount not less than 108 percent of the preceding quarter's average third-party liabilities (determined consistent with applicable federal and state law), and sufficient liquidity is currently available to meet its obligations to third parties.</li> <li>• The federal branch or agency is not subject to a formal enforcement action or order by the OCC, FDIC, or Federal Reserve Board.</li> <li>• The federal branch or agency has not experienced a change in control during the preceding 12-month period in which a full-scope, on-site examination would have been required.</li> </ul> <p>In considering whether the federal branch or agency meets these outlined criteria, the OCC may consider the following factors:</p> <ul style="list-style-type: none"> <li>• Any of the individual components of the ROCA rating of the federal branch or agency is rated 3 or worse.</li> <li>• The results of any off-site supervision indicate a deterioration in the condition of the federal branch or agency.</li> <li>• The size, relative importance, and role of a particular office when reviewed in the context of the foreign bank's entire U.S. operations otherwise necessitate an annual examination.</li> <li>• The condition of the foreign bank gives rise to the need for a 12-month examination cycle.</li> </ul>

## De Novo Banks

Separate from the statutory examination requirement, the OCC performs a pre-opening examination of proposed de novo banks at least 14 calendar days before the proposed opening date. The OCC may decide on a case-by-case basis to waive the pre-opening examination or perform an abbreviated pre-opening examination.

To meet the requirements of 12 USC 1820(d), the OCC must conduct a full-scope, on-site examination within 12 months of a de novo bank's opening. A de novo bank remains subject to the 12-month supervisory cycle until it is no longer designated as a de novo<sup>20</sup> and meets all statutory criteria for the 18-month supervisory cycle. The OCC also performs an on-site interim examination within the first six months of a de novo bank's opening and thereafter between full-scope exams, until the bank is no longer designated as a de novo. Interim examinations include assessing compliance with the supervisory conditions of the charter's approval, measuring progress in achieving the bank's business plan, assessing the adequacy of risk management processes, and following up on any corrective actions required in prior formal written communications. As the bank matures, the interim examination may become more streamlined and targeted toward areas of highest risk.

Refer to the "Charters" booklet of the *Comptroller's Licensing Manual*.

## Converted Banks

The OCC generally conducts a conversion examination before making a decision on an institution's application to convert to a federal charter. The purpose of the conversion examination is for the OCC to obtain relevant information about the condition of the institution and its qualifications to convert.

A converted bank generally must receive a full-scope, on-site examination within 12 months from the date of its last full-scope examination by a federal banking agency, or the date of its last examination by a state regulator, if the examination met Federal Financial Institutions Examination Council (FFIEC) guidelines. The timing of the first full-scope examination may be influenced by whether a conversion examination was performed; if increased risks, concerns, or weaknesses are identified; or if the converted bank is pursuing a nontraditional strategy. This time period may be extended to 18 months if the converted bank meets the criteria for an extension as outlined in 12 USC 1820(d) and 12 CFR 4.6.

Refer to the "Conversions to Federal Charter" booklet of the *Comptroller's Licensing Manual*.

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<sup>20</sup> The de novo designation and supervisory conditions remain in place for as long as the OCC deems necessary, but in no case less than three years. Refer to the "Review of De Novo Status and Supervisory Conditions" section of appendix C in the "Charters" booklet of the *Comptroller's Licensing Manual* for more information.

## Service Providers

The OCC has the authority to examine functions or operations performed on behalf of a bank by a third party.<sup>21</sup> Service providers are examined on a 24-, 36-, or 48-month cycle based on the Examination Priority Ranking Program described in the “Supervision of Technology Service Providers” booklet of the *FFIEC Information Technology (IT) Examination Handbook*. Additionally, at least one interim review is required between regularly scheduled examinations. Refer to “Federal Regulatory Agencies’ Administrative Guidelines: Implementation of Interagency Programs for the Supervision of Technology Service Providers.”<sup>22</sup>

## Types of Supervisory Activities

**Supervisory activities** are the various examination and supervision activities that are conducted throughout a bank’s supervisory cycle.

## Full-Scope Examinations

The full-scope, on-site examination requirement may be fulfilled by conducting one examination (most common in community banks) or by aggregating several supervisory activities (most common in midsize and large banks). Even when a bank receives one full-scope examination during its supervisory cycle, examiners conduct ongoing supervision throughout the supervisory cycle. A full-scope, on-site examination must consist of examination activities performed during the supervisory cycle that

- satisfy the core assessment<sup>23</sup> and are sufficient in scope to assign the bank’s **regulatory ratings**, except CRA ratings.<sup>24</sup>
- result in conclusions about the bank’s risk profile.
- review the bank’s BSA compliance program.
- assess the bank’s compliance with the national flood insurance program, if the bank is an insured depository institution.<sup>25</sup>

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<sup>21</sup> Refer to 12 USC 1867(c) (national banks and FSAs) and 12 USC 1464(d)(7) (FSAs).

<sup>22</sup> This publication is available online in the *FFIEC IT Examination Handbook* Infobase.

<sup>23</sup> Refer to the “Core Assessment” section of this booklet for an overview of the core assessment. For specific core assessment information, refer to the “Community Bank Supervision,” “Large Bank Supervision,” and “Federal Branches and Agencies Supervision” booklets of the *Comptroller’s Handbook*, and the “Core Examination Overview and Procedures for Assessing the BSA/AML Compliance Program” section of the *FFIEC BSA/AML Examination Manual*. (Updated in version 1.1)

<sup>24</sup> Refer to the “Regulatory Ratings” section of this booklet for a description of the regulatory rating systems.

<sup>25</sup> Refer to the “National Flood Insurance Program” section of this booklet and 12 USC 1820(i).

- include on-site supervisory activities.<sup>26</sup>
- conclude with the issuance of an ROE.<sup>27</sup>

## Ongoing Supervision

**Ongoing supervision** is the OCC’s process for assessing risks and reviewing core knowledge about a bank on an ongoing basis. Ongoing supervision conclusions can result in changes to the OCC’s supervisory strategy, regulatory ratings, or risk assessment system (RAS) conclusions for a bank.

## Target Examinations

A **target examination** alone does not fulfill all of the requirements of the statutory full-scope, on-site examination, but may fulfill a portion of the requirements. Target examinations may focus on one particular product (e.g., credit cards), function (e.g., audit), or risk (e.g., operational risk) or may cover specialty areas (e.g., municipal securities dealers). Conclusions from target examinations are generally communicated to the bank in supervisory letters.

Some examinations are conducted as part of the OCC’s licensing function. These include charter field investigations, pre-opening examinations, and conversion examinations. Refer to the *Comptroller’s Licensing Manual* for more information on examinations conducted as part of the OCC’s licensing function.

## Specialty Area Considerations

Specialty areas consist of IT, asset management, BSA/AML, consumer compliance, CRA, and municipal and government securities dealers. Specialty area examinations are integrated within supervisory cycles of all banks. Examination frequencies and scopes of some specialty areas are influenced by statutory mandates, interagency commitments, or OCC policy. Examinations of specialty areas are conducted as part of a full-scope or target examination, depending on the circumstances.

## Information Technology

The level of expertise needed to perform the IT examination typically depends on the bank’s complexity and level of risk. The IT review may be performed as multiple target examinations, the results of which are rolled up to form an overall IT assessment for that particular supervisory cycle, or as a singular review. IT examinations of community banks are usually performed by generalist examiners using procedures in the “Community Bank Supervision” booklet of the *Comptroller’s Handbook*. More complex midsize and large bank

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<sup>26</sup> The extent of on-site examination work is flexible.

<sup>27</sup> For more information, refer to the “Report of Examination” section of this booklet.

IT examinations are generally performed by specialists using the procedures in the *FFIEC IT Examination Handbook*.

## Asset Management

**Asset management** is the business of providing financial products and services to a third party for a fee or commission. Asset management activities include trust and fiduciary services, investment management, retirement planning, corporate trust administration, custody, safekeeping, securities lending services, security-holder and transfer agent services, and retail sales of nondeposit investment products. The asset management review may be performed as multiple target examinations, the results of which are rolled up to form an overall asset management assessment for that particular supervisory cycle, or as a singular review. Midsize and large bank asset management examinations are generally performed by specialists.

Refer to the “Community Bank Supervision,” “Federal Branches and Agencies Supervision,” “Large Bank Supervision,” and “Retail Nondeposit Investment Products” booklets and the *Asset Management* series of booklets of the *Comptroller’s Handbook* for more information. (Updated in version 1.1)

## Bank Secrecy Act/Anti-Money Laundering

(Section updated in version 1.1)

The OCC is required to review the BSA compliance program of each bank during every supervisory cycle.<sup>28</sup> The BSA/AML review must include a conclusion about the adequacy of the bank’s BSA program. The required BSA/AML review may be performed as multiple target examinations, the results of which are rolled up to form an overall BSA compliance program assessment for that particular supervisory cycle, or as a singular review. Risk-based transaction testing must be performed during each supervisory cycle using the appropriate section(s) of the *FFIEC BSA/AML Examination Manual*. The scope of the BSA/AML review must include the minimum procedures in the “Core Examination Overview and Procedures for Assessing the BSA/AML Compliance Program” section of the *FFIEC BSA/AML Examination Manual*, plus any additional core or expanded procedures as determined during the scoping and planning process. The extent that additional core or expanded procedures are used should be risk-based. Examiners should refer to the “Scoping and Planning” section of the *FFIEC BSA/AML Examination Manual* when scoping BSA/AML examinations and should particularly emphasize the following when determining the scope:

- The bank’s BSA/AML risk profile.
- Quality of the bank’s BSA independent testing.
- Previous examination findings.

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<sup>28</sup> 12 USC 1818(s) requires the OCC to review the BSA compliance program of each insured depository institution. For this purpose, “insured depository institution” also includes uninsured federal branches and agencies and uninsured national banks. Refer to 12 USC 1813(c)(3) and 12 USC 1818(b)(5).

- Data from the OCC's money laundering risk system, if applicable.

While Office of Foreign Assets Control (OFAC) regulations are not part of the BSA, evaluation of OFAC compliance is generally included in BSA/AML examinations. The OFAC review evaluates the sufficiency of a bank's implementation of policies, procedures, and processes regarding compliance with OFAC laws and regulations, using applicable procedures from the OFAC section of the *FFIEC BSA/AML Examination Manual*. OFAC-related matters requiring attention (MRA) and suspected violations regarding OFAC must be reported to the Compliance Risk Policy Division of the OCC's Bank Supervision Policy Department for referral to OFAC.

## Consumer Compliance

Consumer compliance encompasses reviews of a bank's compliance with consumer protection-related laws and regulations and the adequacy of a bank's compliance management system (CMS) as it pertains to consumer compliance.<sup>29</sup> The consumer compliance examination should be risk-based, though examination scopes must be consistent with statutory mandates, OCC minimum standards, and interagency commitments regarding examination frequency or minimums. Examiners normally perform consumer compliance examinations as part of a single examination for community banks. In midsize and large banks, the consumer compliance examination is generally conducted as part of one or more target examinations and should be focused on product lines and decision centers that carry the most risk.

Examiners must review the bank's CMS as it pertains to compliance with consumer protection-related laws and regulations at least once per supervisory cycle. This review is a significant consideration when determining a bank's consumer compliance component rating under the Uniform Interagency Consumer Compliance Rating System (CC Rating System). The review of a bank's CMS for assigning the bank's consumer compliance component rating should include a risk-based assessment of the following components:

- Board and management oversight, which includes
  - oversight and commitment, including third-party risk management.
  - change management.
  - comprehension, identification, and management of risk.
  - self-identification and corrective action.
- Consumer compliance program, which includes
  - policies and procedures.
  - training.
  - monitoring and audit.
  - consumer complaint response.

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<sup>29</sup> A bank's overall CMS should cover all applicable laws and regulations and cover all areas of the bank. Examiners should consider aspects of a bank's CMS that do not pertain to consumer protection-related laws and regulations when assessing the bank's overall risk management program and determining the management component rating.

The assignment of the consumer compliance component rating also considers factors regarding violations of laws and consumer harm. Refer to the “Compliance Management Systems” booklet of the *Comptroller’s Handbook* and the “Uniform Interagency Consumer Compliance Rating System” section of this booklet for more information regarding CMS and the consumer compliance rating.

Additionally, sufficient examination work must be performed during each bank’s supervisory cycle to

- satisfy the compliance core assessment and assign the bank’s consumer compliance rating.
- assess the bank’s compliance with the requirements of the national flood insurance program, if the bank is an insured depository institution.<sup>30</sup> At a minimum, examiners must perform transaction testing once during every three supervisory cycles.
- assess the bank’s compliance risk.
- assess the bank’s fair lending risk.
- assess the bank’s Servicemembers Civil Relief Act (SCRA) risk. A risk-based SCRA examination that includes transaction testing must be conducted at least once during every three supervisory cycles.
- follow up on the bank’s corrective actions for concerns in MRAs, violations of laws or regulations, and enforcement actions.

Unless otherwise required, examiners should use judgment in determining whether transaction testing is warranted when assessing the effectiveness of the bank’s CMS regarding consumer compliance.<sup>31</sup> Transaction testing should be risk-based and should reflect the bank’s compliance risk profile, the bank’s audit coverage and results, and the time elapsed since the last testing.

Examiners should be aware of the bifurcated authorities between the OCC and the Consumer Financial Protection Bureau (CFPB) for banks with more than \$10 billion in assets. The prudential regulators and the CFPB signed a Memorandum of Understanding on Supervisory Coordination dated May 16, 2012, intended to facilitate the coordination of supervisory activities involving financial institutions with more than \$10 billion in assets as required

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<sup>30</sup> Refer to 12 USC 1820(i).

<sup>31</sup> Examiners should consider the OCC’s and CFPB’s statutory authorities under the Dodd–Frank Wall Street Reform and Consumer Protection Act when deciding to transaction test. OCC examiners may generally not conduct transaction testing or determine compliance with any law or regulation where the CFPB is assigned supervisory authority under Dodd–Frank. For banks with more than \$10 billion in total assets, examiners may conduct transaction testing to verify the accuracy and reliability of data a bank reports under the Home Mortgage Disclosure Act and Regulation C for use in CRA or fair lending examinations. Examiners may not cite violations in such cases but may direct the bank to correct the data before use in CRA or fair lending examinations. (Footnote updated in version 1.1)



under the Dodd–Frank Wall Street Reform and Consumer Protection Act.<sup>32</sup> (Updated in version 1.1)

Refer to the “Compliance Management Systems” booklet of the *Comptroller’s Handbook* for more information regarding examining banks’ CMSs. Expanded procedures for consumer compliance can be found in the *Consumer Compliance* series of booklets in the *Comptroller’s Handbook*.

## **National Flood Insurance Program**

During each supervisory cycle for an insured depository institution, the OCC must assess the bank’s compliance with the national flood insurance program as mandated by 12 USC 1820(i). The risk-based examination of a bank’s flood insurance program should review any audit of the bank’s flood protection program and conduct transaction testing of a sample of mortgage files if the audit does not include transaction testing. At a minimum, examiners must perform transaction testing once during every three supervisory cycles.

## **Fair Lending Risk Assessment**

Examiners must perform a fair lending risk assessment during every supervisory cycle. Based on this risk assessment, examiners may initiate supervisory activities<sup>33</sup> to assess the bank’s compliance with fair lending laws and regulations. The OCC also identifies banks for fair lending examinations using a screening process that supplements the risk assessments. The screening process uses Home Mortgage Disclosure Act (HMDA) data and other information.

## **Servicemembers Civil Relief Act**

The depth of the SCRA review, including whether transaction testing is conducted, should be based on the bank’s risk. A risk-based SCRA examination that includes transaction testing must be conducted at least once during every three supervisory cycles. Refer to the “Servicemembers Civil Relief Act of 2003” booklet of the *Comptroller’s Handbook*.

## **Community Reinvestment Act**

The CRA requires each federal financial supervisory agency to use its authority when examining financial institutions, to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with safe and sound bank

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<sup>32</sup> Refer to OCC News Release 2012-85, “Agencies Sign Memorandum of Understanding on Supervisory Coordination.”

<sup>33</sup> Refer to the “Fair Lending” booklet of the *Comptroller’s Handbook* for more information regarding fair lending examinations.

operations.<sup>34</sup> The OCC conducts CRA evaluations to meet this requirement. Each CRA evaluation concludes with the issuance of a public Performance Evaluation (PE). A bank's CRA evaluation cycle varies within a range of 24 to 66 months depending on factors such as asset size, number of rating areas, most recent CRA rating, or whether the bank is a de novo bank. OCC policy allows for a "scheduling window," which is calculated from the current start date, to begin the CRA evaluation. Refer to OCC Bulletin 2018-17, "Community Reinvestment Act: Supervisory Policy and Processes for Community Reinvestment Act Performance Evaluations" for more information.

## Municipal and Government Securities Dealers

The OCC is required by statute to examine banks that operate as municipal securities dealers.<sup>35</sup> While the statute does not define the scope of the review, it requires that the OCC examine for compliance with the standards of the Municipal Securities Rulemaking Board (MSRB). Under MSRB Rule G-16, this examination must take place once every two calendar years. For more information, refer to the "Municipal Securities Rulemaking Board Rules" booklet of the *Comptroller's Handbook*.

Under section 15C(d)(1) of the Securities Exchange Act (15 USC 78o-5(d)(1)), all records of a bank that operates as a government securities broker or dealer are subject to reasonable periodic, special, or other examinations by the OCC. When the OCC examines government securities dealers, its policy is to use the same specifications on scope and frequency that it does for municipal securities dealers. Such a policy is efficient because most government securities dealers are also municipal securities dealers. Examinations of Government Securities Act compliance for non-dealer banks should occur during the course of the bank's supervisory cycle. For more information, refer to the "Government Securities Act" booklet of the *Comptroller's Handbook*.

All other bank dealer activities are examined according to the safety and soundness standards set by the Federal Deposit Insurance Corporation Improvement Act and OCC policy.

## Assessment of Audit Functions

Assessment of the bank's audit functions (internal and external) is fundamental to the OCC's overall supervisory process and forms the basis for OCC internal control assessments. Effective bank audit functions may help establish the scopes of current supervisory activities and contribute to strategies for future supervisory activities.

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<sup>34</sup> Refer to 12 USC 2901–2908 (national banks and FSAs), 12 CFR 25 (national banks), and 12 CFR 195 (FSAs). The CRA does not apply to uninsured federal branches, limited federal branches, federal agencies, or special purpose banks that do not perform commercial or retail banking services by granting credit to the public in the ordinary course of business, other than as incidental to their specialized operations. These banks include bankers' banks and banks that engage only in one or more of the following activities: providing cash-management-controlled disbursement services or serving as correspondent banks, trust companies, or clearing agents. Refer to 12 CFR 25.11(c)(1)-(3) (national banks) and 12 CFR 195.11(c)(2) (FSAs) for more information about applicability to federal branches and agencies and special purpose charters.

<sup>35</sup> Refer to section 15B(c)(7) of the Securities Exchange Act (15 USC 78o-4(c)(7)).

Examiners should consider the bank's size, complexity, scope of activities, and risk profile and tailor the audit review to fit examination objectives. Examiners must complete the audit core assessment during each supervisory cycle. As part of the audit reviews, examiners may need to perform expanded procedures from the "Internal and External Audits" booklet to assess the audit function. Examiners responsible for audit reviews, through coordination with functional and specialty area examiners, should determine how much reliance the OCC can place on a bank's audit work. OCC examiners assess the bank's overall audit function during each supervisory cycle by

- drawing a conclusion about the adequacy and effectiveness of the overall audit program and the bank board's oversight of the audit program.
- assigning a rating to the overall audit program (strong, satisfactory, insufficient, weak).

An effective audit assessment encompasses integration, analysis, communication, linkage, documentation, and interagency coordination. The following is a summary of each of these elements:

- **Integration:** Examiners are responsible for planning, coordinating, and integrating audit reviews, including validation, into the supervisory activities for each functional, specialty, and risk area as needed. Examiners should use core assessment standards and other tools, as appropriate, in assessing and documenting conclusions about individual areas and combining conclusions into an overall audit assessment.
- **Analysis:** Examiners should review audit reports and management responses, board and audit committee minutes, relevant committee information packages, and supervisory findings to identify changes in the bank's risk profile, systemic control issues, or changes in audit trends, stature, or structure. Examiners should operate in accordance with their supervisory office's guidance and instructions for analysis and documentation of the bank's 12 CFR 363 annual reporting.
- **Communication:** Examiners should maintain ongoing and clear communications with audit-related personnel throughout an examination or the supervisory cycle.
- **Linkage:** Examiners should link audit conclusions to assigned bank ratings, risk assessments, and supervisory strategies.
- **Interagency coordination:** Audit supervision may involve working with other supervisory agencies. In such cases, the EIC should coordinate the timing of audit reviews and share information with the appropriate supervisory agencies.

Refer to the "Internal and External Audits" booklet for more information regarding the OCC's assessment of a bank's audit function.

## 12 CFR 363 Annual Report Review

Examiners review 12 CFR 363 annual reports for banks covered by 12 CFR 363 or voluntary submitters of such reports.<sup>36</sup> The primary purpose of this review is to facilitate the early identification of problems in financial management of these banks. Required reports include financial statement audits conducted by independent public accountants, information on the structure and effectiveness of internal controls, and other required communications with those charged with governance of the external auditor. Examiners should conduct a review of the 12 CFR 363 annual reports as part of the next ongoing supervision, target examination, or full-scope examination, no later than the quarter following the bank's submission. Results of this review should be used in supervision activities, such as strategy considerations, subsequent examinations, and discussions with bank management. Examiners should promptly advise the supervisory office of any qualified or adverse opinion or disclaimer of opinion encountered.

For more information, refer to appendix C, "12 CFR 363 Reporting," of the "Internal and External Audits" booklet.

## Regulatory Ratings

The OCC uses the uniform interagency rating systems adopted by the FFIEC to assign bank ratings. The CAMELS or ROCA composite and component ratings, and all applicable specialty area ratings, are formally communicated to the bank's board and management through the ROE or other **formal written communication** (e.g., a supervisory letter). The contents of the OCC's formal written communications, including regulatory ratings, are confidential, except for the bank's CRA rating and PE.<sup>37</sup> The CAMELS or ROCA rating system and the RAS are used together during the supervisory process to document a bank's condition and resilience.

A national bank (except federal branches or agencies) or FSA's composite rating under the Uniform Financial Institutions Rating System (UFIRS), or CAMELS, integrates ratings from six component areas: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk. Evaluations of the component areas take into consideration the bank's size and sophistication, the nature and complexity of its activities, and its risk profile. Management's ability to identify, measure, monitor, and control the bank's risks is also taken into account when assigning each component rating. Component ratings are also assigned for the specialty areas of IT, trust (when applicable), consumer compliance, and CRA (ITCC).

ROCA is the interagency uniform supervisory rating system for federal branches and agencies. ROCA integrates ratings from four component areas: risk management, operational controls, compliance, and asset quality. These components represent the major activities or processes of a branch or agency that may raise supervisory concern. Composite and

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<sup>36</sup> The requirements are applicable to all banks with \$500 million or more in total assets. Banks below this asset threshold may choose to voluntarily comply with some or all of 12 CFR 363's requirements.

<sup>37</sup> Refer to the "Disclosure of Ratings" section of this booklet for more information.

component ratings range from 1 to 5, except for the CRA rating, which is descriptive rather than numerical. A 1 is the highest rating and represents the least supervisory concern, indicating the strongest performance and risk management practices relative to the bank's size, complexity, and risk profile. A 5 is the lowest rating and represents the greatest supervisory concern, indicating the most critically deficient level of performance and risk management practices relative to the bank's size, complexity, and risk profile.

Refer to the following sections of this booklet for more information about each rating system, including rating criteria and definitions:

- “Uniform Financial Institutions Rating System (Commonly Known as CAMELS)”
- “Uniform Rating System for Information Technology”
- “Uniform Interagency Trust Rating System”
- “Uniform Interagency Consumer Compliance Rating System”
- “Community Reinvestment Act Rating System”
- “ROCA Rating System”

## Risk Assessment System

Risk-based supervision focuses on evaluating risk, identifying existing and emerging problems, and ensuring that bank management takes corrective action before problems compromise the bank's safety and soundness. From a supervisory perspective, **risk** is the potential that events will have an adverse effect on a bank's current or projected financial condition<sup>38</sup> and resilience.<sup>39</sup>

The **RAS** is a concise method of communicating and documenting conclusions regarding ~~eight~~ seven risk categories: credit, interest rate, liquidity, price, operational, compliance, and strategic. These categories are not mutually exclusive. Any product or service may expose a bank to multiple risks. Risks also may be interdependent and may be positively or negatively correlated. Examiners should be aware of and assess the effect of this interdependence. Examiners draw conclusions regarding the quantity of risk, quality of risk management, aggregate risk, and direction of risk for each of the ~~eight~~ seven categories of risk:

- **Quantity of risk** is the level or volume of risk that the bank faces and is characterized as low, moderate, or high. The quantity of risk and quality of risk management should be assessed independently. The assessment of the quantity of risk should not be affected by the quality of risk management.
- **Quality of risk management** is how well risks are identified, measured, monitored, and controlled and is characterized as strong, satisfactory, insufficient, or weak.
- **Aggregate risk** is a summary conclusion about the level of supervisory concern. It incorporates assessments about the quantity of risk and the quality of risk management.

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<sup>38</sup> Financial condition includes impacts from diminished capital and liquidity. Capital in this context includes potential impacts from losses, reduced earnings, and market value of equity.

<sup>39</sup> Resilience recognizes the bank's ability to withstand periods of stress.

(Examiners weigh the relative importance of each.) Examiners characterize aggregate risk as low, moderate, or high.

- **Direction of risk** is a prospective assessment of the probable movement in aggregate risk over the next 12 months and is characterized as decreasing, stable, or increasing. The direction of risk often influences the supervisory strategy, including how much validation is needed. If risk is decreasing, the examiner expects, based on current information, aggregate risk to decline over the next 12 months. If risk is stable, the examiner expects aggregate risk to remain unchanged. If risk is increasing, the examiner expects aggregate risk to be higher in 12 months.

When assessing direction of risk, examiners should consider current bank practices and activities in addition to other quantitative and qualitative factors. For example, the direction of credit risk may be increasing if a bank has relaxed underwriting standards during a strong economic cycle, even though the volume of troubled credits and credit losses remains low. Similarly, the direction of liquidity risk may be increasing if a bank has not implemented a well-developed contingency funding plan during a strong economic cycle, even though existing liquidity sources are sufficient for current conditions.

Because an examiner expects aggregate risk to increase or decrease does not necessarily mean that he or she expects the movement to be sufficient to change the aggregate risk level within 12 months. An examiner can expect movement *within* the risk level. For example, aggregate risk can be high and decreasing even though the decline is not anticipated to change the level of aggregate risk to moderate. In such circumstances, examiners should explain in narrative comments why a change in the risk level is not expected. Aggregate risk assessments of high and increasing or low and decreasing are possible.

The presence of risk is not necessarily reason for concern. Examiners determine whether the risks a bank assumes are warranted by assessing whether the risks are effectively managed in a manner consistent with safe and sound banking practices. Generally, a risk is effectively managed when it is identified, measured, monitored, controlled, and reported. Senior management should report to the board on the bank's overall risk profile, including aggregate and emerging risks.<sup>40</sup> A bank should have the capacity to readily withstand the financial distress that a risk, in isolation or in combination with other risks, could cause.

If examiners determine that a risk is unwarranted (e.g., not effectively managed or supported by adequate capital), they must communicate to management and the board the need to mitigate or eliminate the unwarranted risk. Appropriate actions may include reducing exposures, increasing capital, or strengthening risk management practices.

Examiners should discuss RAS conclusions with bank management and the board during each supervisory cycle. If a change to the RAS occurs that warrants altering the bank's supervisory strategy or requires corrective action by bank management, examiners should formally communicate the rationale for the change to the bank and obtain commitments for any corrective actions. These communications help the bank and the OCC reach a common

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<sup>40</sup> Refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook* for more information regarding risk management.

understanding of the bank's risks, focus on the strengths and weaknesses of risk management, and achieve supervisory objectives.

## Categories of Risk

### **Credit Risk**

Credit risk is the risk to current or projected financial condition and resilience arising from an obligor's failure to meet the terms of any contract with the bank or otherwise perform as agreed. Credit risk is found in all activities in which settlement or repayment depends on counterparty, issuer, or borrower performance. Credit risk exists any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

Credit risk is the most recognizable risk associated with banking. This definition encompasses more than the traditional definition associated with lending activities. Credit risk also arises in conjunction with a broad range of bank activities, including selecting investment portfolio products, derivatives trading partners, or foreign exchange counterparties. Credit risk also arises due to country or sovereign exposure, as well as indirectly through guarantor performance.

### **Interest Rate Risk**

Interest rate risk is the risk to current or projected financial condition and resilience arising from movements in interest rates. Interest rate risk results from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in bank products (options risk).

The assessment of interest rate risk should consider risk from both an accounting perspective (i.e., the effect on the bank's accrual earnings) and an economic perspective (i.e., the effect on the market value of the bank's portfolio equity). In some banks, interest rate risk is included in the broader category of market risk. In contrast with price risk, which focuses on portfolios accounted for primarily on a mark-to-market basis (e.g., trading accounts), interest rate risk focuses on the value implications for accrual portfolios (e.g., held-to-maturity and available-for-sale accounts). (Updated in version 1.1)

### **Liquidity Risk**

Liquidity risk is the risk to current or projected financial condition and resilience arising from an inability to meet obligations when they come due. Liquidity risk includes the inability to access funding sources or manage fluctuations in funding levels. Liquidity risk also results from a bank's failure to recognize or address changes in market conditions that affect its ability to liquidate assets quickly and with minimal loss in value.

The nature of liquidity risk has changed in recent years. Increased investment alternatives for retail depositors and sophisticated off-balance-sheet products with complicated cash-flow implications are examples of factors that complicate liquidity risk.

## Price Risk

Price risk is the risk to current or projected financial condition and resilience arising from changes in the value of either trading portfolios or other obligations that are entered into as part of distributing risk. These portfolios typically are subject to daily price movements and are accounted for primarily on a mark-to-market basis. This risk occurs most significantly from market-making, dealing, and position-taking in interest rate, foreign exchange, equity, commodities, and credit markets.

Price risk also arises from bank activities whose value changes are reflected in the income statement, such as in lending pipelines, other real estate owned, and mortgage servicing rights. The risk to earnings or capital resulting from the conversion of a bank's financial statements from foreign currency translation also should be assessed under price risk. As with interest rate risk, many banks include price risk in the broader category of market risk.

## Operational Risk

Operational risk is the risk to current or projected financial condition and resilience arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. Operational losses may result from internal fraud; external fraud; inadequate or inappropriate employment practices and workplace safety; failure to meet professional obligations involving clients, products, and business practices; damage to physical assets; business disruption and systems failures; and failures in execution, delivery, and process management. Operational losses do not include opportunity costs, forgone revenue, or costs related to risk management and control enhancements implemented to prevent future operational losses.

The quantity of operational risk and the quality of operational risk management are heavily influenced by the quality and effectiveness of a bank's system of internal controls. The quality of the audit function, although independent of operational risk management, also is a key assessment factor. Audit can affect the operating performance of a bank by helping to identify and validate correction of weaknesses in risk management or controls. The quality of due diligence, risk management of third-party relationships, business continuity planning, and controls protecting the confidentiality, integrity, and availability of bank information are other key assessment factors for mitigating operational risk.

## Compliance Risk

Compliance risk is the risk to current or projected financial condition and resilience arising from violations of laws or regulations, or from nonconformance with prescribed practices, internal bank policies and procedures, or ethical standards. This risk exposes a bank to potential fines, **civil money penalties (CMP)**, payment of damages, and the voiding of



contracts. Compliance risk can result in ~~diminished reputation~~, harm to bank customers, limited business opportunities, and lessened expansion potential. (Updated in version 1.1)

Compliance risk is not limited to risk from failure to comply with consumer protection-related laws and regulations; it encompasses the risk of noncompliance with *all* laws and regulations, as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation (known as legal risk) from all aspects of banking, traditional and nontraditional.

## **Strategic Risk**

Strategic risk is the risk to current or projected financial condition and resilience arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment. This risk is a function of a bank's strategic goals, business strategies, resources, and quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

The assessment of strategic risk includes more than an analysis of a bank's written strategic plan. It focuses on opportunity costs and how plans, systems, and implementation affect the bank's financial condition and resilience. It also incorporates how management analyzes external factors, such as economic, technological, competitive, regulatory, and other environmental changes, that affect the bank's strategic direction.

## **Reputation Risk**

~~Reputation risk is the risk to current or projected financial condition and resilience arising from negative public opinion. This risk may impair a bank's competitiveness by affecting its ability to establish new relationships or services or continue servicing existing relationships. Reputation risk is inherent in all bank activities, and management should deal prudently with stakeholders, such as customers, counterparties, correspondents, investors, regulators, employees, and the community.~~

~~A bank that actively associates its name with products and services offered through outsourced arrangements or asset management affiliates is more likely to have higher reputation risk exposure. Significant threats to a bank's reputation also may result from negative publicity regarding matters such as unethical or deceptive business practices, violations of laws or regulations, high profile litigation, or poor financial performance. The assessment of reputation risk should take into account the bank's culture, the effectiveness of its problem escalation processes and rapid response plans, and its engagement with news media.~~

## Relationship Between RAS and Regulatory Ratings

The RAS is used in conjunction with CAMELS, ROCA, and other regulatory ratings during the supervisory process to evaluate a bank's financial condition and resilience. The RAS provides both a current (aggregate risk) and a prospective (direction of risk) view of the bank's risk profile that examiners incorporate when assigning regulatory ratings. For example, under the RAS, examiners may assess credit risk in a bank with insufficient risk management practices and increasing adverse trends as "moderate and increasing" or "high and increasing." If the component rating for asset quality does not reflect the quality of risk management identified in the credit RAS, examiners should consider whether changing the component rating is warranted. Additionally, examiners consider their assessments of risk management practices for each of the risk categories when assigning management component ratings.

# Risk-Based Supervision Approach

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In carrying out its mission, the OCC employs an ongoing risk-based supervision approach focused on evaluating risk, identifying material and emerging concerns, and requiring banks to take timely corrective action before deficiencies compromise their safety and soundness.

The OCC's risk-based supervision approach requires examiners to determine how existing or emerging issues for a bank, its related organizations, or the banking industry as a whole affect the nature and extent of risks in that bank. Examiners evaluate risk using the OCC's RAS and tailor supervisory activities to the risks identified. Examiners must include periodic testing in supervisory activities to validate their risk assessments.

The risk-based supervision approach concentrates on systemic risks and banks that pose the greatest risk to the federal banking system. Under this approach, the OCC allocates greater resources to areas of higher risk by

- identifying risk using common definitions. The categories of risk, as they are defined, are the foundation for supervisory activities.
- measuring risk using common methods of evaluation. Risk cannot always be quantified in dollars. For example, numerous or significant internal control deficiencies may indicate excessive operational risk.
- evaluating risk management to determine whether bank systems adequately identify, measure, monitor, and control risk.
- providing flexibility to modify planned supervisory activities based on changes to a bank's risk profile.
- performing examinations based on the core assessment, expanded procedures, or verification procedures, reaching conclusions on the bank's risk profile and condition, and following up on areas of concern.

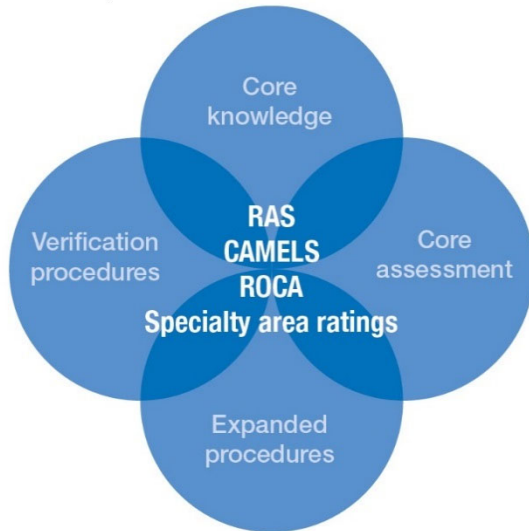
While the OCC's supervision focuses on individual banks, the risks to these banks may be mitigated or increased by the activities of affiliates and other related organizations (e.g., financial subsidiaries). Therefore, examiners must determine the risk profile of OCC-supervised banks, regardless of how activities are structured within the bank's overall company. Examiners' assessments should consider the OCC-supervised bank's risks from affiliates and other related organizations, and the effectiveness of the OCC-supervised bank's risk management systems in controlling those risks. To do this, examiners obtain information from the bank, the bank's affiliates, and other regulatory agencies, as necessary. Examiners may also verify transactions between the bank and its affiliates as appropriate.<sup>41</sup> Examiners typically document one consolidated assessment for all OCC-supervised banks within a holding company structure, noting any significant differences for individual OCC-supervised affiliates.

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<sup>41</sup> For more information, refer to appendix A, "Functional Regulation," of this booklet.

Figure 2 illustrates the components of the OCC’s risk-based supervision approach. The sections that follow explain the relationships among each of the concepts illustrated in figure 2. Later in this booklet, the “Supervisory Process” section explains how each of these components is linked to the OCC’s supervisory process.

**Figure 2: Risk-Based Supervision Components**



## Core Knowledge

**Core knowledge** provides a foundation for assessing a bank’s risks. It is a basic profile about the bank, its corporate structure, operations, products and services, culture, and risk appetite. It provides the OCC with the means to assess changes in a bank’s activities, products, and services; identify changes in basic risk management controls; and identify broad supervisory issues. Core knowledge should be a snapshot of the most current information about the bank.

## Core Assessment

**Core assessment** establishes the minimum conclusions examiners must reach to assess risks and assign regulatory ratings. Examiners must reach these conclusions during the course of each supervisory cycle as part of meeting the requirements of the required full-scope, on-site examination. Regulatory ratings (e.g., CAMELS/ITC<sup>42</sup> or ROCA) are assigned at least once during every supervisory cycle after completion of the core assessment. When completing the core assessment, examiners should consider all supervisory activities conducted during the bank’s supervisory cycle.

Specific core assessment guidance is in the “Community Bank Supervision,” “Federal Branches and Agencies Supervision,” and “Large Bank Supervision” booklets of the *Comptroller’s Handbook*, and the “Core Examination Overview and Procedures for

<sup>42</sup> ITC represents specialty areas of IT, trust, and consumer compliance.

Assessing the BSA/AML Compliance Program” section of the *FFIEC BSA/AML Examination Manual*.

## Expanded Procedures

**Expanded procedures** contain detailed guidance for examining specialized activities or products that warrant extra review beyond the core assessment. These procedures are found in other booklets of the *Comptroller’s Handbook*, the *FFIEC BSA/AML Examination Manual*, and the *FFIEC IT Examination Handbook*, or are conveyed separately in an OCC bulletin. Examiners determine which expanded procedures to use, if any, during examination planning or after drawing preliminary conclusions during the core assessment.

## Verification Procedures

**Verification procedures** are designed to guide verification of the existence or proper recordation of assets or liabilities, or test the reliability of financial records. Examiners may perform verification procedures or may direct the bank to engage a third party to conduct verification, in cases where significant, unresolved safety and soundness concerns may materially affect a bank’s financial condition.<sup>43</sup> Verification procedures should also be used whenever

- key account records are significantly out of balance or chronically out of balance. (Updated in version 1.1)
- management has restricted examiners’ access to bank books or records.
- significant accounting, audit, or internal control deficiencies remain uncorrected.
- bank auditors are unaware of, or unable to sufficiently explain, significant deficiencies.
- management engages in activities that raise questions about its integrity.
- there are repeat violations of laws or regulations that affect audit, internal controls, or regulatory reports. (Updated in version 1.1)
- other situations exist that the OCC determines warrant further investigation.

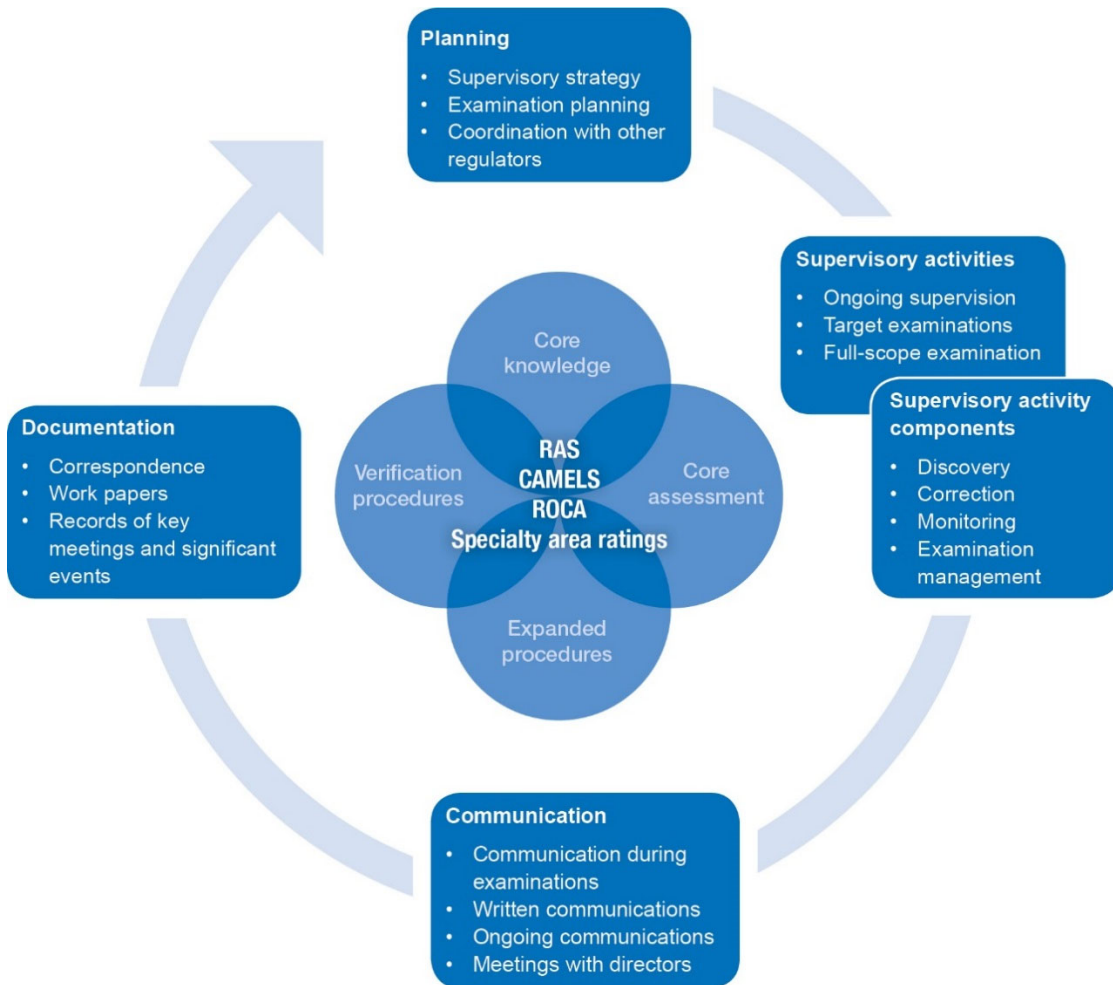
## Supervisory Process

The supervisory process includes planning, supervisory activities, communication, and documentation, as illustrated in figure 3. The elements of the OCC’s risk-based supervision approach discussed earlier in this booklet are integrated throughout the supervisory process.

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<sup>43</sup> When the OCC directs the bank to engage a third party to conduct verification, it generally does so within the OCC’s enforcement action policy. Refer to the “Enforcement Actions” section of this booklet for more information.

Figure 3: Supervisory Process



## Planning

Planning is essential to effective supervision and occurs throughout a bank’s supervisory cycle. Planning requires careful and thoughtful assessment of a bank’s current and anticipated risks (e.g., examiners should assess the risks of both existing and new banking activities). New banking activities may be either traditional activities that are new to the bank or activities new to the financial services industry.<sup>44</sup>

### Supervisory Strategy

The **supervisory strategy** is the OCC’s detailed supervisory plan for each bank that outlines supervisory objectives, supervisory activities, and work plans. Strategies are developed for three supervisory cycles and are dynamic documents that are updated as needed throughout the supervisory cycle. Supervisory strategies for OCC-supervised banks within a multibank

<sup>44</sup> Refer to OCC Bulletin 2017-43, “New, Modified, or Expanded Bank Products and Services: Risk Management Principles.”

holding company structure are generally documented as one strategy for all OCC-supervised banks within the company.

- **Supervisory objectives** define the goals of supervision for the specific bank, based on its risk profile, and are the foundation for supervisory activities and work plans. Well-defined objectives promote focused and efficient supervisory activities. They also help the OCC apply supervisory policies and resources consistently and appropriately. The objectives should be clear, attainable, specific, and action-oriented.
- **Supervisory activities** are the means of achieving supervisory objectives. Each activity must be linked to at least one objective. Activities must be sufficient, in aggregate, to meet the OCC’s definition of a full-scope, on-site examination.<sup>45</sup> The type, depth, and frequency of activities should correspond to the level of risk in each bank and statutory requirements. Examiners should employ periodic baseline transaction testing to validate key control functions and systems, even for areas that are low risk. Refer to the “Types of Supervisory Activities” section of this booklet for descriptions of the various types of supervisory activities.
- **Work plans** outline the scope, timing, and resources needed to meet the supervisory objectives and activities.

The portfolio manager or EIC develops the supervisory strategy in advance of each supervisory cycle in collaboration with other OCC personnel, including the supervisory office and subject matter experts, as appropriate. The strategy integrates all supervisory activities planned for the supervisory cycle and quantifies the necessary examiner resources (e.g., work days and experience level) to complete the identified activities. Supervisory strategies are unique to each bank and are based on

- core knowledge, core assessment, RAS, regulatory ratings, and the supervisory history of the bank.
- statutory examination requirements.
- the OCC’s annual bank supervision operating plan.<sup>46</sup>
- supervisory priorities of the agency.
- economic conditions.
- banking industry trends.
- other examination guidelines (e.g., expanded procedures in the *Comptroller’s Handbook*, *FFIEC IT Examination Handbook*, or *FFIEC BSA/AML Examination Manual*).

Examiners periodically review and update each bank’s supervisory strategy depending on bank, industry, economic, legislative, and regulatory developments. Examiners should discuss strategies with bank management as the strategy is created and modified.

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<sup>45</sup> Refer to the “Full-Scope Examinations” section of this booklet for criteria.

<sup>46</sup> The OCC’s Committee on Bank Supervision issues an annual bank supervision operating plan that sets forth the OCC’s supervision priorities and objectives.

## Examination Planning

Planning extends beyond developing the supervisory strategy. Before starting a supervisory activity, the EIC or designee should

- review the supervisory strategy, the OCC's supervisory information systems, and applicable analytical reports.
- consider information from customer complaint data review(s) performed by examiners during the supervisory cycle. Communicate any significant findings to examining staff in the scope memo, including any trends or themes for further review.
- discuss the bank, associated risks, and examination scope with the portfolio manager, EIC, ADC, or director of special supervision or international banking supervision as appropriate.
- contact bank management to discuss the examination scope and objectives and identify changes in bank operations, controls, and personnel.
- revise the supervisory strategy, if necessary.
- coordinate the examination with other regulatory agencies, as necessary.
- send a request letter to the bank.
- analyze any advance information provided by the bank.
- determine examiner assignments.
- prepare a scope memo to communicate assignments and other pertinent information to examining staff.

## Coordination With Other Regulators

Effective planning, especially for large, complex, internationally active, or diversified companies, requires adequate and timely communication among regulators. Depending on the scope of a bank's operations, examiners may need to coordinate with domestic and foreign bank and nonbank regulators. The OCC shares supervision with other regulators on issues related to shared national credits (SNC),<sup>47</sup> Interagency Country Exposure Review

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<sup>47</sup> The SNC program is an interagency program designed to provide a review and credit quality assessment of many of the largest and most complex bank credits. Refer to OCC Bulletin 1998-21, "Shared National Credit Program: SNC Program Description and Guidelines," for more information.



Committee (ICERC) decisions,<sup>48</sup> service providers of OCC-supervised banks, and consumer protection-related laws and regulations.<sup>49</sup>

Examiners should maintain regular communication with designated points of contact at all relevant agencies supervising affiliates or functional lines of business. These points of contact assist examiners in the supervision of the risks posed to OCC-supervised banks by facilitating the exchange of information, the coordination of supervisory activities, and the communication of critical issues.

To determine the overall risk profile of the bank, examiners must consider the risks posed by external market forces and significant lines of business, including those subject to the primary supervision of other regulators. While examiners are not responsible for the ongoing supervision of business lines supervised by other functional regulators, examiners should obtain information to assess the quantity of risks from those business lines and the risk management systems in place to address those risks.<sup>50</sup>

Each federal banking agency, to the extent practical and consistent with principles of safety and soundness and public interest, is required to<sup>51</sup>

- coordinate examinations to be conducted at an insured depository institution and its affiliates.
- coordinate with the other appropriate federal banking agencies.
- work to coordinate examinations with appropriate state bank supervisors.
- use copies of ROEs prepared by any other federal banking agencies or appropriate state bank supervisors to eliminate duplicative requests for information.

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<sup>48</sup> The OCC, FDIC, and Federal Reserve established the ICERC to ensure consistent treatment of the transfer risk associated with banks' foreign exposures to public and private sector entities. For more information, examiners should refer to the "Guide to the Interagency Country Exposure Review Committee Process," transmitted by OCC Bulletin 2009-8, "Country Risk: Changes to the Interagency Country Exposure Review Committee Process," and the "Country Risk Management" booklet of the *Comptroller's Handbook*.

<sup>49</sup> Section 1025 of Dodd–Frank (12 USC 5515) granted the CFPB exclusive authority to examine insured depository institutions with more than \$10 billion in total assets and their affiliates for compliance with enumerated federal consumer financial laws. Refer to 12 USC 5481 for the definition of enumerated federal consumer financial laws. The prudential regulators retained authority for examining insured depository institutions with more than \$10 billion in total assets for compliance with certain other laws related to consumer financial protection, including the Fair Housing Act, the SCRA, and section 5 of the Federal Trade Commission Act. (Footnote updated in version 1.1)

<sup>50</sup> Refer to appendix A, "Functional Regulation."

<sup>51</sup> Refer to 12 USC 1820(d)(6).

In an emergency or under other extraordinary circumstances, or when the agency believes a violation of law may have occurred, a federal banking agency may conduct a separate examination of an institution for which it is not the primary regulator.<sup>52</sup>

Coordinated interagency examinations are intended to minimize disruptions and burdens associated with the examination process, and to centralize and streamline examinations in multibank organizations. Responsibility for coordinating interagency examinations falls to the OCC office that has supervisory authority for the lead OCC-supervised bank of a multibank holding company, the bank affiliates of a multibank holding company with a lead state bank, or the lead bank in a chain banking group.<sup>53</sup>

When planning supervisory activities, examiners must follow existing written sharing agreements, delegation orders, interagency agreements, OCC policies, and laws and regulations governing cooperation and information sharing with other regulators.

## Supervisory Activity Components

Supervisory activities, regardless of type, include discovery, correction (when applicable), monitoring, and examination management. The extent of these components during a given activity depends on the type of activity, nature and extent of the bank's risks, and existence of deficiencies. The nature and extent of examination management also depends on other factors, such as the number and experience of examiners assigned.

### Discovery

Discovery is ongoing and dynamic. Discovery occurs during supervisory activities when examiners complete the core assessment and applicable expanded procedures, and during ongoing supervision. If concerns remain about the adequacy of the bank's audit program, the bank's internal controls, or the integrity of the bank's risk management system after completing expanded procedures, examiners should determine whether to expand the scope of the review by completing verification procedures.<sup>54</sup>

Through discovery, examiners gain a fundamental understanding of the bank by

- evaluating the bank's condition.
- identifying and quantifying risks.
- evaluating management's and the board's awareness and understanding of significant risks.
- assessing the quality of risk management.

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<sup>52</sup> Refer to 12 USC 1820(d)(7).

<sup>53</sup> Refer to Banking Bulletin 93-38, "Interagency Examination Coordination Guidelines."

<sup>54</sup> Refer to the "Internal Control Questionnaire and Verification Procedures" booklet and other booklets of the *Comptroller's Handbook* for verification procedures.

- performing sufficient testing to verify the integrity of risk management systems (including internal and external audits and internal controls).
- identifying unwarranted levels of risk, deficient risk management practices, and the underlying causes of any deficiencies.

Examiners' evaluations and assessments form the foundation for future supervisory activities. Bank supervision is an ongoing process that enables examiners to periodically confirm and update their assessments to reflect current or emerging risks. This revalidation is fundamental to effective supervision.

## Correction

Examiners identify deficiencies and monitor their correction throughout the supervisory cycle. The OCC uses various supervisory actions, including MRAs, citations of violations of laws or regulations, or enforcement actions to address banks' deficiencies. In the correction process, examiners obtain commitments from bank management to correct each deficiency.<sup>55</sup>

Once examiners have identified a deficiency and its potential cause,<sup>56</sup> the bank should use its resources to fully determine the extent of the deficiency. Examiners should not take on actions or burdens that are the bank's responsibility. In some cases, however, examiners may perform more in-depth evaluations or investigations of a bank's deficiencies. This may occur, for example, in failing banks, banks in which fraudulent activities are suspected, or banks with severe BSA deficiencies.

The bank's plans for corrective actions should be formally communicated through action plans. Action plans detail steps or methods that management has determined will correct the root causes of deficiencies rather than symptoms. Bank management is responsible for developing and executing action plans. Directors are expected to hold management accountable for executing action plans. Action plans should

- specify actions to correct deficiencies.
- address the underlying root causes of deficiencies.
- set realistic time frames for completion.
- establish benchmarks to measure progress toward completion.
- identify the bank personnel who will be responsible for correcting deficiencies.
- detail how management will effectively execute the plan and how the board will oversee management's actions.

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<sup>55</sup> Refer to the "Supervisory Actions" section of this booklet for more information.

<sup>56</sup> Examiners should determine the root cause of deficiencies when possible. In some cases, examiners will need to direct management to perform a root-cause analysis.

## Monitoring

Monitoring allows the OCC to respond in a timely manner to risks facing individual banks and the industry as a whole. It allows resources to be redirected to areas of increasing or emerging risk. Monitoring also provides a better focus for examination activities.

In monitoring a bank, examiners

- identify current and prospective issues that affect the bank’s risk profile or condition.
- determine how to focus future supervisory strategies.
- follow up on the bank’s progress in correcting outstanding MRAs, correcting violations of laws or regulations, and complying with enforcement actions, which includes
  - assessing bank-prepared action plans to resolve each deficiency, including the appropriateness of the time frames for correction.
  - determining whether the bank is executing its action plans.
  - verifying the bank’s documentation to confirm that management completed its corrective actions.
  - validating that management’s corrective actions are effective and sustainable.
  - recommending the use of informal or formal enforcement actions when warranted. When determining whether to take further action, examiners consider management and the board’s responsiveness in recognizing the problem and formulating an effective solution.<sup>57</sup>
- communicate with management regarding areas of concern, if any.

Examiners must tailor monitoring to each bank. When supervising a large bank, for example, examiners primarily monitor the OCC-supervised banks within the company on a consolidated basis and consider potential material risks posed by functionally regulated activities.<sup>58</sup>

For more information on monitoring requirements, refer to the “Community Bank Supervision,” “Federal Branches and Agencies Supervision,” and “Large Bank Supervision” booklets of the *Comptroller’s Handbook*.

## Examination Management

The EIC (including the FEIC or EIC of a particular activity, as applicable) is responsible for effective examination management and must provide an organized environment in which supervisory goals and objectives can be achieved within appropriate time frames. During the examination, examining staff must inform the EIC of preliminary conclusions, and the EIC must evaluate progress toward completing the supervisory objectives.

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<sup>57</sup> Refer to the “Enforcement Actions” section of this booklet.

<sup>58</sup> For more information about FRAs, refer to appendix A of this booklet.

As OCC representatives, examiners must conduct themselves professionally during supervisory activities. Examiners should

- maintain the confidentiality of bank records.
- conduct meetings and gather information efficiently to minimize disruption of the bank's operations.
- adhere to schedules for meetings and appointments, including providing updates to bank management during the examination.
- discuss needs for timely information.
- give bankers the opportunity to explain the reasons for their actions.
- be respectful of bankers' and locally based groups' opinions.
- handle any conflicts in a tactful and professional manner.

## Communication

The OCC is committed to ongoing, effective communication with the banks that it supervises and with other regulators as appropriate. Communication includes formal and informal conversations and meetings, ROEs, supervisory letters, and other written materials. Regardless of form, communications should convey a consistent conclusion regarding the bank's condition. OCC communications must be professional, objective, clear, and informative. Examiners must not have communications with banks that could be perceived as suggesting that the examination process is in any way influenced by political issues or considerations.

Communication should be ongoing throughout the supervisory process and tailored to a bank's structure and dynamics. The timing and form of communication depend on the situation being addressed. Examiners should communicate with the bank's management and board as often as the bank's condition and supervisory findings require. The EIC or portfolio manager should include plans for communication in the supervisory strategy.

Examiners should meet with bank management frequently and directors as needed to collect information and discuss supervisory issues. These discussions, which establish and maintain open lines of communication, are an important source of information. For example, examiners meet with management throughout the supervisory cycle and before, during, and after supervisory activities. When a bank's supervisory cycle is complete, examiners meet with the board to discuss the OCC's supervision of the bank, results of the examination(s), and other topics. Examiners should document these meetings as appropriate in the OCC's supervisory information systems.

When the OCC is considering an enforcement action, examiners should use care in communications with the bank related to the potential enforcement action. Examiners should consult with the supervisory office and assigned OCC legal counsel before meeting with the bank regarding a potential enforcement action.

## Communication During Examinations

### Entrance Meetings With Bank Management

The EIC meets with appropriate bank or company management at the beginning of an examination to

- explain the scope of the examination, the role of each examiner, and how the examination team will conduct the examination.
- confirm the availability of bank personnel during the examination.
- identify communication contacts.
- answer any questions.

Other examiners also typically participate in the EIC's entrance meeting with bank management. If an examination will be conducted jointly with another regulator, the OCC should invite a representative from that agency to participate in the entrance meeting.

### Ongoing Communication During Examinations

Ongoing communication and discussions with bank management allows examiners to obtain the information necessary to reach sound and accurate conclusions. Periodic meetings with bank management are essential during examinations. Discussion of key issues and preliminary findings prevents misunderstanding and allows bank management to provide more information. Examiners must make every effort to resolve significant differences concerning material findings and conclusions. In communications with the bank and the OCC supervisory office, examiners must accurately describe bank management's position on any remaining differences.

Examiners should maintain ongoing communications with audit-related personnel throughout an examination or supervisory cycle. Examiner meetings with audit committees and internal and external audit personnel should occur as frequently as appropriate depending on the bank's size, complexity, scope of activities, and risk profile.

The EIC should communicate, as necessary, with the appropriate OCC supervisory office regarding examination progress. The EIC should discuss preliminary conclusions, deficient practices, violations of laws or regulations, possible enforcement actions (including CMPs), referrals to other agencies, and any other significant issues. After consulting with the appropriate supervisory office, contact with OCC legal staff, subject matter experts, or specialty examiners may be appropriate for significant supervisory matters.

## Exit Meetings With Bank Management

After each examination activity is completed, the EIC<sup>59</sup> holds an exit meeting with bank or company management to

- discuss the OCC's findings and conclusions.
- discuss deficiencies and obtain management's commitments for corrective action.
- discuss the areas of greatest risk to the bank.
- provide preliminary ratings and RAS conclusions, when applicable.
- outline plans for future supervisory activities, when possible.

The EIC should encourage bankers to respond to OCC concerns, provide clarification, ask about future supervisory plans, and raise any other questions or concerns.

Before the exit meeting, the EIC should discuss significant findings, including preliminary ratings and RAS conclusions, with the appropriate OCC supervisory office. Meeting with the supervisory office promotes consistent application of OCC policy and confirms that OCC management supports the conclusions and the course of action for any deficiencies. The EIC and the supervisory office should decide who attends the exit meeting on the OCC's behalf, and the EIC should inquire about the attendance of senior bank managers and others. If the examination was conducted jointly with another agency, the EIC or supervisory office should invite a representative from that agency to participate in the exit meeting.

Examiners must convey any significant decisions discussed with bank management during the exit meeting, when they meet with the board, and in written correspondence. Examiners should discuss issues with management before discussing them with the board, unless the supervisory office determines that the subject should be approached confidentially with the board. During the exit meeting, examiners should also communicate to management that conclusions are preliminary until the issuance of the ROE or supervisory letter.

## Written Communication

Written communication of supervisory activities and findings is essential to effective supervision. Written communication should focus management and the board's attention on the OCC's major conclusions, including any supervisory concerns. This written record, along with other related correspondence, helps establish and support the OCC's supervisory strategy. Written communication must

- be consistent with the tone, findings, and conclusions orally communicated to the bank.
- convey the condition of the bank or, if appropriate, the condition of an operational unit of the bank.

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<sup>59</sup> In many cases, the examiners who participate in the examination also attend the exit meeting. In large or departmentalized banks, the examiners sometimes conduct exit meetings with management of specific departments or functions before the EIC conducts a final exit meeting with senior management.

- be addressed to the appropriate audience based on the nature of the content and how the bank or company is structured and managed.
- discuss any concerns the OCC has about bank risks or deficiencies.
- summarize the corrective actions to address deficiencies, including management's commitment.

Deficiencies and excessive risks must be promptly communicated to the bank when they are identified either by sending a formal written communication to the board or by meeting with the board or management. The OCC sends written communication if it is

- issuing an MRA.
- citing violations of laws or regulations.<sup>60</sup>
- changing any composite or component CAMELS/ITC or ROCA rating.
- changing an aggregate RAS assessment.
- providing the bank with a status update regarding a previously communicated MRA or violation of law or regulation (e.g., a concern in an MRA becomes past due, or a violation's status changes to pending validation).
- responding to correspondence from the bank.

The results of supervisory activities conducted during the supervisory cycle should be communicated as they occur, generally in a supervisory letter. Those results are then summarized in the ROE, which is issued after the conclusion of the supervisory cycle. The OCC must provide an ROE to the board at least once during each supervisory cycle. The ROE conveys the bank's overall condition and risk profile and summarizes supervisory activities, conclusions, and findings during the supervisory cycle. Refer to the "Report of Examination" section of this booklet for more information regarding ROE requirements.

During the supervisory cycle, the OCC may receive correspondence and other information from banks. Examiners should acknowledge receipt of bank correspondence within five days and send the full response as soon as practicable, but typically within no more than 30 days. If a full response is not possible within 30 days, examiners or the supervisory office should provide bank management or the board frequent updates regarding the status of the response and an expected resolution date.

## Meetings With Directors

The OCC maintains communication with boards throughout the supervisory cycle to discuss OCC examination results and other matters of mutual interest, such as current industry issues and emerging industry risks. The EIC meets with the board or an authorized committee that includes outside directors after the board or committee has reviewed the ROE. If necessary, the OCC uses board meetings to discuss how the board should respond to supervisory concerns and issues. Board meetings do not apply to federal branches or agencies, as they do

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<sup>60</sup> Some violations may be communicated to management in a list outside of a formal written communication. Refer to the "Violations of Laws and Regulations" section of this booklet for more information.



not have boards of directors, but the OCC may request meetings with an FBO's head office management as circumstances warrant.

Refer to the "Community Bank Supervision" booklet of the *Comptroller's Handbook* for specific information about meetings with directors of community banks. Refer to the "Large Bank Supervision" booklet of the *Comptroller's Handbook* for specific information about meetings with directors of midsize and large banks.

## Documentation

Documentation is an ongoing process throughout the supervisory cycle. Examiners must document their decisions and conclusions. Supervisory offices must also document actions the OCC takes with respect to individual banks, including decisions regarding enforcement actions, corporate applications, and other formal communications.

Documentation includes correspondence, ROEs, work papers, and records of key meetings and significant events. In most cases, work papers need not include all of the information reviewed during a supervisory activity. Generally, only those documents necessary to support the scope and conclusions of the supervisory activity should be retained as work papers. Examiners must abide by the OCC's information security policies when handling, storing, and disposing of sensitive bank information.

### OCC's Supervisory Information Systems

Examiners document narrative and statistical information about OCC-supervised institutions and their affiliates<sup>61</sup> in the agency's electronic supervisory information systems. The information reflects the institution's current condition; the OCC's supervisory strategy for the institution, results of supervisory activities, and supervisory actions in response to deficiencies; and bank management's progress in correcting deficiencies. Using this information and data, OCC senior management can review the condition of supervised institutions and groups of institutions. Other federal banking regulators also have access to certain information, as appropriate, through various formats.

Many electronic files are official records of the OCC and may be discoverable items in litigation. Examiners must be succinct, clear, and professional in their documentation and avoid informality that might be misunderstood or misused.

The EIC, portfolio manager, and supervisory office are responsible for ensuring that the electronic files for their assigned banks are accurate and up-to-date. For community and midsize banks, examiners should enter information under the appropriate charter number. For large banks, examiners should record information as follows:

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<sup>61</sup> OCC-supervised institutions and their affiliates include banks, holding companies and affiliates, federal branches and agencies, and supervised service providers.

- Comments pertaining to or affecting all OCC-supervised banks within a company should generally be recorded in the electronic file under the holding company or lead OCC-supervised bank, as appropriate.
- Comments particular to a bank should be recorded in the electronic file under that bank.

# Supervisory Actions

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## Matters Requiring Attention

The OCC uses **MRAs** to communicate concerns about a bank's deficient practices.<sup>62</sup> Examiners must communicate such concerns to management and the board when the concerns are discovered and must not defer issuing MRAs pending bank management's efforts to address the concerns. Examiners must not use a graduated process by first communicating the OCC's concern with a deficient practice as a recommendation,<sup>63</sup> then, if the deficient practice is not addressed, using an MRA.

For consistent reporting, the OCC focuses on the concerns within the MRA, tracking them through their duration. The following Five Cs format is used to communicate an MRA:

- **Concern** describes the deficient bank practice and how it deviates from sound governance, internal control, or risk management principles, or results in substantive noncompliance with laws or regulations, enforcement actions, or conditions imposed in writing. Unsafe or unsound practices should be specifically identified in the concern. A single MRA may contain multiple concerns. If the deficient practice has affected the bank's condition, this should be described in the concern section.
- **Cause** notes the root cause of the concern when it is evident. When the root cause is not evident, the OCC may require bank management to determine the root cause as part of the corrective action.
- **Consequence** explains how continuation of the deficient practice could affect the bank's condition, including its financial performance or risk profile. Management's inaction could, in certain instances, result in violations or additional supervisory actions, such as enforcement actions (including CMPs for the bank, the bank's board, or management).
- **Corrective action** includes what management or the board must do to address the concern and eliminate the cause. Generally, management is responsible for effectuating corrective actions, and the board should oversee management's corrective actions and hold management accountable. In certain cases (e.g., concerns with board oversight), the board, rather than management, may need to take corrective action.
- **Commitment** relates to the bank's action plan, including specific information regarding milestones, the completion date, and staff who are accountable for implementation. If

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<sup>62</sup> The OCC updated its policies and procedures for examiners regarding MRAs on October 30, 2014. The updated MRA policies and procedures addressed recommendations in "An International Review of OCC's Supervision of Large and Midsize Institutions" (International Peer Review report) to support the agency's mission of ensuring a safe and sound federal banking system by emphasizing timely detection and correction of deficient bank practices before they affect the bank's condition. The updated policies and procedures also made MRA terminology, format, follow-up, analysis, and reporting consistent across the agency.

<sup>63</sup> Recommendations must not be included in the ROE or other formal written communication to the bank (e.g., supervisory letter). Recommendations can be provided informally to bank management or the board as suggestions to enhance policies or as best practices. Recommendations do not require specific action by bank management or follow-up by examiners. Recommendations are not tracked in the OCC's supervisory information systems.

management is unable to provide an action plan during the examination, the examiner obtains a commitment from bank management to develop a board-approved plan and provide it to the OCC within 30 days of receipt of the formal written communication containing the MRA.

A concern is either “open” or “closed.” A concern is closed if the bank implements and the OCC verifies and validates the effectiveness and sustainability of the corrective action, or if the bank’s practices are no longer a concern because of a change in the bank’s circumstances. In formal written communication, the bank’s board may receive a brief listing of closed concerns. Within the meaning of “open,” a concern may be categorized several ways in formal written communication to the board and management and for reporting purposes:

- **New:** The concern was not identified previously (i.e., the concern is not “repeat”).
- **Repeat:** The same or a substantially similar concern has reoccurred. For a concern to be a repeat concern
  - the OCC must have previously communicated the concern in an MRA or enforcement action during the prior five-year period, and
  - subsequent to the initial communication, the bank corrected the deficient practice and the OCC validated and closed the concern, but the concern has reoccurred.
- **Self-identified:** A significant unresolved concern that the bank initially discovered is labeled as self-identified. A bank’s action to self-identify concerns is an important consideration when the OCC assesses the adequacy of the bank’s risk management system.
- **Past due:** The corrective action was not implemented within the expected time frame, or during the validation process examiners determine that the corrective action is not effective or sustainable. There may be valid reasons that support failure to meet deadlines. Bankers should communicate these reasons to their primary OCC contact (e.g., supervisory office, EIC, or portfolio manager) promptly, in order to determine a reasonable, modified remediation date.
- **Pending validation:** The OCC verified that the bank implemented the corrective action, but insufficient time has passed for the bank to demonstrate sustained performance under the corrective action, and the OCC has not validated the sustainability of the corrective action.
- **Escalated:** Subsequent to its communication to the bank in an MRA, the OCC addressed the uncorrected concern in an enforcement action. The concern may be past due, or milestones have not been met by management, or inadequate attention given to correcting the deficiency may represent an unsafe or unsound practice.

The OCC expects the bank’s board to oversee timely and effective correction of the practices described in an MRA. Those expectations include

- holding management accountable for the deficient practices.
- directing management to develop and implement corrective actions.
- approving the necessary changes to the bank’s policies, processes, procedures, and controls.

- establishing processes to monitor progress and verify and validate the effectiveness of management’s corrective actions.

When discussing MRAs, examiners must be clear with bank management and the board regarding the OCC’s supervisory concerns and expectations. Examiners must impress on the board its responsibility to provide oversight of management’s corrective actions. Failure to correct MRAs in a timely manner could provide the basis for enforcement actions. Therefore, banks should have a process for following up on MRAs. Likewise, examiners must include plans to follow up on MRAs in the supervisory strategies for individual banks.

## Violations of Laws and Regulations

A **violation of law or regulation** is an act (or failure to act) that deviates from, or fails to comply with, a statutory or regulatory requirement. Violations are often the result of deficient practices. Frequently, correcting violations alone does not address the deficient practices that may have led to the violations. When examiners identify a violation, they should also identify any deficient practices that contributed to violations. If bank management has not corrected deficient practices that caused or contributed to the violation, examiners must communicate the OCC’s concern with these practices in an MRA.<sup>64</sup>

Examiners must cite all OCC-identified violations to facilitate timely and effective corrective action by bank management or the board. Substantive OCC-identified violations must be cited in an ROE or supervisory letter, whereas less substantive violations may be cited in a separate document (e.g., a list provided to management during the exit meeting). Bank-identified violations must be cited in an ROE or supervisory letter in certain circumstances (e.g., the violation requires further investigation or has not been corrected), and examiners have discretion to include substantive bank-identified violations in an ROE or supervisory letter as they determine is warranted. Examiners should use judgment to determine if less substantive bank-identified violations should be cited in writing, and if so, cite them in a separate document provided to bank management or the board.

The OCC expects management, in a timely manner, to effectively correct all violations regardless of how they are communicated. If management fails to correct a violation previously communicated in a separate document by the OCC, the violation should be included in the next ROE or supervisory letter.

The first time the OCC communicates a violation to a bank, the violation must be labeled with one or more of the following attributes:

- **New:** The OCC has not previously cited the same or substantially similar violations in writing during the previous five-year period (i.e., the violation is not “repeat”).

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<sup>64</sup> The OCC updated its policies and procedures for examiners regarding violations on May 23, 2017. The updated violations policies and procedures addressed recommendations in the International Peer Review report to support the agency’s mission of ensuring a safe and sound federal banking system by emphasizing timely detection and correction of violations. The updated policies and procedures also made terminology, format, follow-up, analysis, and reporting for violations consistent across the agency.

- **Repeat:** The OCC communicated the violation (even if self-identified) in writing during the previous five-year period and new violations of the same or substantially similar regulation or law occur subsequent to the board or management receiving notification.
- **Self-identified:** The board or management is aware of the violation and documented and disclosed the violation to the OCC before or during the examination. A bank can self-identify a violation from various sources, including customer complaints, risk and control self-assessments, independent risk management reviews, internal audit reviews, or third-party reviews.

Upon completing follow-up, examiners must determine whether to label a violation as past due, pending validation, or closed, as appropriate using the following definitions, and communicate the status of the violation to the bank:

- **Past due:** During verification, examiners determine the bank has not implemented the expected corrective actions for the violation within the required time frame, or, during validation, examiners determine that the corrective action is not effective or sustainable.
- **Pending validation:** The OCC has verified that the bank implemented the corrective actions, but insufficient time has passed for the bank to demonstrate sustained performance under the corrective actions, and the OCC has not validated the sustainability of the corrective actions, or the OCC determines that additional testing is warranted.
- **Closed:** The bank has corrected the violation, and the OCC has verified and validated the bank's corrective actions; a change in the bank's circumstances corrected the violation; or the violation is otherwise deemed uncorrectable. Closed violations should be communicated as closed in a subsequent ROE, supervisory letter, or written list of violations.

## Enforcement Actions

The OCC uses **enforcement actions** to require a bank's board and management to take timely actions to correct a bank's deficiencies. The OCC takes enforcement actions against banks and their current or former **institution-affiliated parties** (IAP). (Updated in version 1.1)

### Enforcement Actions Against Banks

(Section updated in version 1.1)

The OCC typically first cites a violation or issues an MRA to address a bank's deficiencies. Violations, concerns in MRAs, or unsafe or unsound practices may serve as the basis for an enforcement action.

Bank enforcement actions can be either formal or informal. Examiners should consider an informal enforcement action when a bank's condition is sound but deficiencies have not been corrected in a timely manner or escalation beyond the OCC's citation of a violation or documentation of a concern in an MRA is otherwise warranted. The board's agreement or

acceptance of an informal enforcement action can be indicative of its commitment to correct identified deficiencies before they adversely affect the bank's condition. When a bank's deficiencies are severe, uncorrected, repeat, or unsafe or unsound, or negatively affect the bank's condition, the OCC may use formal enforcement actions to support the agency's supervisory objectives.

Once a bank enforcement action is in place, examiners must periodically assess the bank's compliance with the enforcement action. Written feedback must be provided to bank management and the board, and the assessment should be documented in the OCC's supervisory information systems.

Refer to OCC Bulletin 2018-41, "OCC Enforcement Action Policies and Procedures Manuals," and its attachment, PPM 5310-3, "Bank Enforcement Actions and Related Matters," for more information regarding bank enforcement actions.

## Enforcement Actions Against Institution-Affiliated Parties

(Section added in version 1.1)

An enforcement action against an IAP may serve as a deterrent to, encourage correction of, or prevent

- violations (including any action, alone or with another or others, for or toward, causing, bringing about, participating in, counseling, or aiding or abetting a violation);<sup>65</sup>
- unsafe or unsound practices; or
- breaches of fiduciary duty.<sup>66</sup>

An IAP enforcement action may be used on a standalone basis or in conjunction with other supervisory or enforcement actions. IAP enforcement actions can be either formal or informal. Examiners who identify or otherwise become aware of serious potential misconduct by an IAP should consult with the appropriate supervisory office and OCC legal staff.

Refer to OCC Bulletin 2018-41 and its attachment, PPM 5310-13, "Institution-Affiliated Party Enforcement Actions and Related Matters," for more information.

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<sup>65</sup> Refer to 12 USC 1813(v).

<sup>66</sup> For more information on fiduciary duties, refer to the OCC's *Director's Book: Role of Directors for National Banks and Federal Savings Associations* and the "Insider Activities" booklet of the *Comptroller's Handbook*.

## Civil Money Penalties

(Section updated in version 1.1)

CMPs are a type of enforcement action that requires monetary payments to penalize a bank, its directors, or other persons participating in the affairs of the bank for violations,<sup>67</sup> unsafe or unsound practices, or breaches of fiduciary duty. CMPs may be used alone or in combination with other enforcement actions. In addition, the OCC must assess CMPs if it finds that a regulated lending institution engaged in a pattern or practice of violations of certain requirements under the Flood Disaster Protection Act.<sup>68</sup> Examiners should propose CMPs for serious misconduct, including misconduct that is reckless, flagrant, willful, or knowing and that, because of its frequency or recurring nature, shows a general disregard for law or regulation. Added consideration should be given to violations that occurred or continued in direct contravention of the bank's policy guidelines, correspondence from the regulator, or audit reports.

After reviewing the facts and deciding to recommend a CMP, the examiner should immediately contact the appropriate supervisory office and OCC legal counsel for advice on proper documentation and any other assistance. The examiner should submit a CMP referral to the supervisory office within 30 days of the close of the examination. The referral should include a memorandum containing the EIC's recommendations, a completed CMP matrix, and supporting documentation.

When possible, the EIC or appropriate supervisory office representative should notify management or the board at the exit meeting and in the applicable ROE or supervisory letter whenever he or she is recommending CMPs. The discussion should include a description of the CMP process, the criteria the OCC uses to decide whether to assess a CMP and set the amount, and reference to OCC Bulletin 2018-41 and its attachment, PPM 5000-7, "Civil Money Penalties." Examiners should not discuss or speculate on the amount of any penalty but may refer the board or management to the CMP matrix. Examiners must document in the OCC's supervisory information systems any CMP referrals and discussions of referrals with bank management and the board. Examiners should consult with the supervisory office and assigned OCC legal counsel before discussing potential CMPs with the bank.

For more information, refer to OCC Bulletin 2018-41 and its attachment, PPM 5000-7.

### Reprimand or Supervisory Letter

In certain cases, the issuance of a reprimand or a supervisory letter may be more appropriate than the assessment of a CMP. A reprimand is a strongly worded document used in lieu of a CMP when, for example, the CMP would be too small to justify spending resources required

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<sup>67</sup> The term "violation," for the purpose of CMPs under 12 USC 1818(i), is defined by 12 USC 1813(v) to include "any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling, or aiding or abetting a violation."

<sup>68</sup> Refer to 42 USC 4012a(f) and 4003(a)(10).



or when the individual or bank has recognized the supervisory problem and taken steps to correct it. A supervisory letter is generally used to call attention to a supervisory problem that is not severe enough to warrant a CMP. Reprimands and supervisory letters are discussed in more detail in OCC Bulletin 2018-41 and its attachment, PPM 5000-7. (Updated in version 1.1)

## Conditions Imposed in Writing

The OCC may impose conditions in connection with the approval of an application, a notice, or another request by a bank if it determines that one or more conditions are necessary or appropriate for the approval to be consistent with applicable laws, regulations, or OCC policies. Conditions may be imposed, for example, to protect the safety and soundness of the bank, prevent conflicts of interest, or require the bank to provide for customer protections. Conditions imposed in writing are often used by the OCC in approvals of corporate applications and interpretive letter opinions on banks' requests to engage in permissible activities. These conditions are "conditions imposed in writing" within the meaning of 12 USC 1818 if the OCC's approval explicitly makes the conditions enforceable. These conditions remain in effect until the OCC removes them.

The OCC considers some conditions imposed in writing to be enforcement actions. Generally, the OCC does not consider conditions imposed in writing in connection with the approval of a bank's licensing filing<sup>69</sup> to be enforcement actions, regardless of whether they are conditions imposed in writing within the meaning of 12 USC 1818. Table 2 summarizes when the OCC generally considers conditions imposed in writing to be enforcement actions.

**Table 2: Conditions Imposed in Writing as Enforcement Actions**

Were the conditions imposed in connection with the approval of a bank's licensing filing?		Are the conditions "conditions imposed in writing" within the meaning of 12 USC 1818?		The OCC generally considers the conditions to be an enforcement action
Yes	and	Yes	then	No
		No		
No		Yes		Yes <sup>a</sup>
		No		

<sup>a</sup> Generally, when the OCC considers a condition imposed in writing within the meaning of 12 USC 1818 to be an enforcement action, the OCC publishes the condition in its monthly enforcement action press release.

Supervisory strategies for banks with outstanding conditions imposed in writing should include periodic assessments of the bank's ongoing compliance with the conditions.

Refer to OCC Bulletin 2018-41 and its attachment, PPM 5310-3, as well as the "General Policies and Procedures" booklet of the *Comptroller's Licensing Manual* for more information regarding conditions imposed in writing. (Updated in version 1.1)

<sup>69</sup> A "licensing filing" means an application, notice, or other request submitted to the OCC under 12 CFR 5.

# Other Supervisory Considerations

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## Disclosure of Ratings

Disclosing ratings to a bank's board and senior management strengthens communications by encouraging more complete and open discussions of examination findings and conclusions. Using the information disclosed, bank management can better focus on possible areas of weaknesses and timely corrective measures.

By longstanding policy, OCC examiners thoroughly discuss examination findings and conclusions during exit meetings with senior management or the board, as appropriate. They discuss a bank's overall condition and its recommended composite rating, as well as conclusions about component areas. Since the January 1, 1997, implementation of the revised UFIRS (CAMELS rating system), examiners have also disclosed the ratings for all component areas that are within the scope of the examination.

Examiners should indicate during discussions with management or the board whether the ratings are preliminary or final. If the ratings are preliminary, examiners should indicate that the supervisory office assigns the bank's final composite and component ratings. Final ratings are disclosed, as appropriate, in the ROE or supervisory letter.

Finally, management should be informed that, except for the CRA assessment, composite and component ratings disclosed in the ROE or other written communication remain subject to the confidentiality rules imposed by 12 CFR 4. Each ROE must contain a confidentiality disclosure statement alerting readers that the entire ROE, including composite and component ratings, is confidential. Supervisory letters that disclose ratings also should include a confidentiality statement.

## Suspected Criminal Violations

Banks are required to report known or suspected violations of federal criminal law to the Financial Crimes Enforcement Network (FinCEN) on a Suspicious Activity Report (SAR).<sup>70</sup> This form must be filed when known or suspected criminal violations involve

- actual or potential loss of any amount when insider abuse is involved.
- transactions aggregating \$5,000 or more when a suspect can be identified.
- transactions aggregating \$25,000 or more regardless of a potential suspect.
- transactions aggregating \$5,000 or more when potential money laundering or violations of the BSA are involved.

If examiners discover a suspected criminal violation subject to the reporting guidelines, they should instruct bank management to file a SAR. For violations involving a significant loss to

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<sup>70</sup> Refer to 12 CFR 21.11(c) (national banks) and 12 CFR 163.180(d)(3) (FSAs).

the bank, insider abuse, or the Federal Election Campaign Act,<sup>71</sup> examiners must consult OCC legal counsel before notifying the bank. OCC personnel are forbidden from threatening to report suspected criminal violations to the Offices of the U.S. Attorneys, threatening criminal prosecution, or making offers or promises of immunity under any circumstances. Examiners should not make statements regarding the probability of indictment, conviction, or related matters. In certain cases, the OCC may issue an order of removal or prohibition or require restitution from a bank insider when law enforcement agencies decline to prosecute the bank insider for a criminal act or significant wrongdoing.

## Information Received From an Outside Source

When examiners are contacted by an outside source possessing information about alleged misconduct by a bank, its employees, its officers, or its directors, examiners are occasionally asked to protect the informant's identity. Any request to protect an informant's identity is evaluated on a case-by-case basis, in consultation with OCC legal counsel.

If possible, the examiner should advise the informant before receiving the information that

- the OCC will try to comply with the request for confidentiality but does not guarantee that it will be able to do so.
- bank personnel may deduce the informant's identity as a result of any inquiry.
- the OCC may refer the information to another agency, such as the U.S. Department of Justice, which may request the informant's identity to continue or complete an investigation.
- the OCC will disclose the informant's identity to another agency only if the other agency agrees to abide by the OCC's request of confidentiality.
- if the information becomes the basis for criminal prosecution, the court may order disclosure of the informant's identity to the defendant.
- the prosecutor may refuse to identify the informant, but in response the court would probably dismiss the indictment or information.

The examiner should ask the informant for permission to disclose his or her identity to another agency, if required. The informant should report the information only to the EIC, portfolio manager, or supervisory office, who should

- investigate the situation while guarding the informant's identity.
- not reveal an informant's identity to bank representatives.
- not discuss the informant's identity with others, except as necessary to perform their official duties.
- refer all questions to OCC legal counsel.

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<sup>71</sup> Refer to OCC Bulletin 2007-31, "Prohibition on Political Contributions by National Banks" (national banks), and 52 USC 30118 (national banks and FSAs).

## Appeals Process

If a dispute arises during the supervisory process, it is the OCC's policy to resolve the dispute fairly and expeditiously in an informal, amicable manner. If disagreements cannot be resolved through informal discussions, banks are encouraged to seek a further review of OCC decisions or actions that are in dispute through the bank appeals process.

The bank appeals process is managed by the OCC's Office of Enterprise Governance and Ombudsman, which operates independently from the bank supervision process and reports directly to the Comptroller of the Currency. With the Comptroller's prior consent, the Ombudsman may stay any appealable agency decision or action during the resolution of the appealable matter. The Ombudsman also may report weaknesses in OCC policy to the Comptroller and make recommendations regarding changes in OCC policy.

For more information about the appeals process and the definition of an appealable decision or action, refer to OCC Bulletin 2013-15, "Bank Appeals Process: Guidance for Bankers."

## Customer Assistance Group

The OCC's Customer Assistance Group (CAG), a unit within the Office of Enterprise Governance and Ombudsman, helps customers resolve issues with banks and their operating subsidiaries. CAG answers questions, provides advice, investigates complaints, and refers customers to the appropriate regulator when complaints are not about OCC-supervised banks or are about issues under another agency's purview.

In addition, CAG plays an integral role in helping the OCC assess risks within the federal banking system. Examiners have nearly real-time access to the CAG complaint database, which contains tools to search trends by bank or by product. CAG analysts review complaint volumes, trends, and issues on an ongoing basis. Examiners review complaint data during the supervisory cycle as a potential indicator of risk management weaknesses or other deficiencies, including violations of laws or regulations. Refer to the consumer compliance core assessments of the "Community Bank Supervision and" "Large Bank Supervision" booklets and the risk management core assessment of the "Federal Branches and Agencies Supervision" booklet of the *Comptroller's Handbook* for more information regarding examiners' reviews of complaint data.

## Quality Management

The OCC's bank supervision quality management (QM) programs are designed to ensure that the agency achieves its objectives for bank supervision, as defined in the "Community Bank Supervision," "Federal Branches and Agencies Supervision," and "Large Bank Supervision" booklets of the *Comptroller's Handbook* and other related guidance. QM programs typically consist of pre-delivery QC, post-delivery quality assurance (QA) activities, and management practices intended to promote continuous business process improvement. QC is the first line of defense and significantly reduces or eliminates errors before they become systemic issues or have a negative impact on the OCC's bank supervision. QA is designed to verify that QC

is effective. OCC management uses QA results to identify operational weaknesses, training needs, or process deficiencies.

The LBS and MCBS departments have separate QM programs to support the policy frameworks of each department. Enterprise Governance, a unit of the Office of Enterprise Governance and Ombudsman, operates a bank supervision QA program independent of the LBS and MCBS departments. The purpose of the Enterprise Governance QA program is to assess, verify, and improve the OCC's overall supervision processes.

# Report of Examination

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(Section and its sub-sections updated in version 1.1)

This section outlines the OCC's requirements and provides examiners with guidance for ROEs. The OCC's requirements and examiner guidance are consistent with the "FFIEC Policy Statement on the Report of Examination."<sup>72</sup>

The OCC must provide the board of each OCC-supervised bank<sup>73</sup> with an ROE at least once during every supervisory cycle. Findings from target examinations are generally communicated in a separate formal, written communication (supervisory letter) and summarized in the ROE at the end of the bank's supervisory cycle. When the ROE summarizes activities that occurred during the supervisory cycle, it should reference the written communications that occurred throughout the supervisory cycle. ROEs

- must document the bank's condition and risk profile.
- must discuss the adequacy of the bank's risk management practices.
- must include clear narrative and key data to support assigned ratings and other significant conclusions with a level of detail consistent with the assigned rating or level of concern. Narrative should generally be brief for 1- and 2-rated components and increase in detail for 3-, 4-, and 5-rated components.
- must address the overall adequacy of the bank's BSA compliance program and each program pillar, including a description of any problems as required by 12 USC 1818(s)(2)(B).<sup>74</sup>
- should present conclusions and issues in order of importance.
- should document deficiencies prominently.

## Federal Branches and Agencies

The ROE should detail the results of the examination while assessing the branch's role within its company. The ROE is sent to the federal branch or agency and should not be sent to the head office. Although the branch or agency may share the information with its head office, the OCC cannot be assured that an ROE sent to a head office will be adequately protected from disclosure because the laws governing confidentiality and customer privacy differ from nation to nation. A letter is sent annually to the parent entity's board and home country supervisor summarizing the foreign bank's U.S. federal operations. If an examiner discovers deficiencies during the course of an examination, the examiner may contact head office management to solicit support for correcting the deficiencies.

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<sup>72</sup> Refer to FFIEC Press Release, "FFIEC Members Adopt Policy Statement on the Report of Examination" (March 6, 2019).

<sup>73</sup> A separate ROE must be prepared for each OCC-supervised bank within a multi-bank organization.

<sup>74</sup> This information may instead be communicated in a supervisory letter.

## Financial Data

Financial data in the ROE usually represent the most recent final quarterly data available as reported on the bank’s report of condition and income (i.e., call report). All financial schedules must be prepared as of this date, which is known as the examination “as of” date. A “review” date, however, can be used for the asset quality review, even if it is different from the “as of” date.

Examiners may prepare the financial schedule pages using more current data than the data available from the bank’s most recent call report. Doing so requires manual calculation of the data using the definitions in *A User’s Guide for the Uniform Bank Performance Report* on the FFIEC’s website.

## ROE Sections

The following are the categories of ROE sections:

- **Required sections**, which must be included in every ROE.
- **Conditionally required sections**, which are required under certain conditions.
- **Discretionary sections**, which should be included only if they are necessary to address supervisory activities pertinent to the bank or to support examination conclusions.

Table 3 summarizes ROE section requirements and relevant guidelines. Detailed descriptions of each section, including any specific requirements for content, appear after the table.

**Table 3: ROE Requirements and Guidelines**

Section name	Required	Conditionally required	Discretionary	Guidelines (as applicable)
Cover	X			
Table of Contents	X			
Examination Conclusions and Comments (ECC)	X			
Management/ Administration or Risk Management component rating section	X			The Risk Management page should be used for federal branch and agency ROEs. The Management/ Administration page should be used for all other ROEs.
Risk Assessment	X			
Signatures of Directors	X			This page must be the last page of the ROE.
Matters Requiring Attention		X		Required unless there are no MRAs. If there are no MRAs, the ECC section should so state.

Section name	Required	Conditionally required	Discretionary	Guidelines (as applicable)
Compliance With Enforcement Actions		X		Required when the bank is subject to an enforcement action. If the only outstanding enforcement action is individual minimum capital ratios (IMCR) established for the bank, this section is not required, and the bank's compliance with the IMCRs can be discussed elsewhere in the ROE.
Violations of Laws and Regulations		X		Required when any of the following apply: <ul style="list-style-type: none"> <li>• The OCC is citing violations in the ROE or a separate document.</li> <li>• A write-up(s) regarding an outstanding violations status is required.</li> </ul>
Component rating narrative pages (except management or risk management rating)		X		Required if the component is rated 3 or worse. Recommended if the ROE is communicating a rating change.
Concentrations		X		Required when concentration levels pose a challenge to management or present unusual or significant risk to the bank.
Summary of Items Subject to Adverse Classification/ Summary of Items Listed as Special Mention (data page)		X		Required for community bank ROEs.
Items Subject to Adverse Classification or Listed for Special Mention (i.e., loan write-ups)		X		Required if loan write-ups are required. Used on a discretionary basis when loan write-ups are recommended. Refer to the "Rating Credit Risk" booklet of the <i>Comptroller's Handbook</i> for loan write-up requirements and guidelines.
Credit Underwriting Weaknesses			X	May be used to convey credit underwriting or administration exceptions and weaknesses.
Comparative Statements of Financial Condition (data page)			X	
Analysis of Earnings (data page)			X	
Capital Calculations (data page)			X	



Section name	Required	Conditionally required	Discretionary	Guidelines (as applicable)
Other supplemental pages or sections (no predefined title or structure)			X	Include if relevant to the supervisory activity and justified by the bank's condition and risk profile.

## Required Sections

### Cover Page

The cover of the ROE must include the following information:

- Name of the bank
- Location of the bank—include city and state at a minimum
- Charter number of the bank
- Examination start date or financial as-of date
- Where and to whom the bank should address correspondence

A confidentiality disclosure statement must be included on the cover page of the ROE or in the ECC section. The following wording should be used for the confidentiality statement:

**THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL**

This Report of Examination is the property of the OCC, and its contents are strictly confidential. Unauthorized disclosure of the contents of this report, including component and composite ratings, is generally prohibited. However, when necessary or appropriate for bank business purposes, a bank is allowed to disclose the Report of Examination to a person or organization officially connected with the bank as officer, director, employee, attorney, auditor, or independent auditor. Disclosure may also be made to the bank's holding company and, under certain conditions, to a consultant employed by the bank. These exceptions to the general prohibition on disclosure are described in OCC regulations, 12 CFR 4.37(b)(2). Any other disclosure of the Report of Examination or its contents without the OCC's prior approval is a violation of 12 CFR 4.37(b) and subject to criminal penalties in 18 USC 641 for conversion of U.S. Government property.

The information contained in this report is based on the books and records of the bank, on statements made to the examiner by directors, officers, and employees, and on information obtained from other sources believed to be reliable and presumed by the examiner to be correct. It is emphasized that this Report of Examination is not an audit of the bank and should not be construed as such. This examination does not relieve the directors of their responsibility for performing or providing for adequate audits of the bank.

Each director, in keeping with his or her responsibilities both to depositors and to shareholders, should thoroughly review this report. Subsequent to this review, the directors should sign the form attached to this report. If the board is not in substantial agreement with the contents and conclusions of this report, a request should be made promptly for a conference between selected members of the board and officers of the bank and representatives of the deputy comptroller to review these matters.

### Table of Contents

The table of contents provides an overview of ROE sections and page numbers. It helps the board locate information easily within the ROE.

## Examination Conclusions and Comments

This section should summarize the conclusions and significant findings of supervisory activities performed during the supervisory cycle. This section must include the following:

- The bank’s composite and component ratings (current and previous ratings, along with the rating date).
- Examination objectives and the purpose of the ROE. Objectives should explain how the OCC’s examination scope and activities during the supervisory cycle were used to evaluate the bank’s overall condition and risk profile.
- Major conclusions and significant concerns, prioritized and summarized, along with a brief discussion of each CAMELS/ITC component. Comments should provide the board with a concise, unambiguous assessment of the bank’s condition and focus the board’s attention on any deficiencies or excessive risks. Comments should refer to other sections of the ROE containing greater detail, if necessary.
- A brief discussion of any planned OCC follow-up, including
  - items and concerns remaining after exit meetings conducted with management during the examination.
  - plans for future board meetings.
  - requests for written responses from the board.
  - timing and content of progress reports.
  - expected timing and focus of future supervisory activities.
  - additional information to help the board understand the report, including
    - persons to contact with questions or comments.
    - when applicable, notification that an enforcement action is being recommended for initiation or termination, or that a CMP referral is being considered or has been made.<sup>75</sup>
- A statement referencing the rating definitions. For example, “The bank’s composite and component ratings are assigned pursuant to the Uniform Financial Institutions Rating System, Uniform Rating System for Information Technology, Uniform Interagency Trust Rating System, and Uniform Interagency Consumer Compliance Rating System. Please refer to the ‘Bank Supervision Process’ booklet of the *Comptroller’s Handbook* for the definitions of individual component ratings as disclosed in this report.” The ROE should not include a long, all-inclusive list of rating definitions.
- A signature block for the EIC and for the approving supervisory office official, as the last item in the ECC section. The EIC is not required to sign the report; typing his or her name and title suffices. The ROE is not considered final until an approval authority signs it—either the supervisory office official or a person officially designated to act in that capacity.
- The confidentiality statement, if it is not included on the cover page.

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<sup>75</sup> Enforcement action recommendations and CMP referrals should be discussed with the supervisory office or OCC legal counsel for concurrence before discussing them in the ROE.

## Management/Administration or Risk Management

The management/administration or risk management section presents support for the management or risk management component rating conclusions discussed in the ECC section of the ROE. The risk management section is used in federal branch and agency ROEs, and the management/administration section is used in all other ROEs. A heading at the beginning of the section identifies factors related to evaluating that area. This section can reference MRAs, enforcement actions, and violations, as appropriate. The narrative comments do not have to address all the factors listed in the heading. Comments should address only the factors having significant influence on the area's evaluation, and may reference other ROE sections.

## Risk Assessment

This section contains examiners' assessments of the quantity of risk, quality of risk management, aggregate level of risk, and direction of risk for each risk category using the RAS matrix. A brief narrative comment under the RAS matrix should be included for each risk category.

## Signatures of Directors

The Signatures of Directors page is always the last page of the ROE. By signing this page, each director shows that he or she has personally reviewed the entire ROE. In lieu of all directors signing the ROE, members of a board committee may sign for the board if

- the committee membership includes outside directors, and
- the full board has passed a resolution delegating review of the report to that committee.

In such circumstances, the directors who do not sign are no less responsible for the bank's safe and sound operation.

## Conditionally Required Sections

### Matters Requiring Attention

This section is required, unless there are no MRAs. If there are no MRAs, this must be stated in the ECC section.

This section focuses the board's attention on deficient practices warranting the board's immediate acknowledgment and oversight. This section includes new MRAs and status updates for previously issued MRAs that remain outstanding. It may also include a summary of MRAs that were closed during the supervisory cycle.

Refer to the "Matters Requiring Attention" section of this booklet for more information about MRAs.

## Compliance With Enforcement Actions

ROEs for banks subject to an enforcement action must include a “Compliance With Enforcement Actions” section.<sup>76</sup>

This section must include the following:

- A table that states the status (i.e., in compliance or not in compliance) of each actionable article.
- A write-up for each actionable article that includes
  - a summary of the article’s requirements.
  - status of the actions required.
  - additional actions required, if applicable.
  - commitment, if applicable.

Write-ups for articles that are in compliance are optional when the article was also communicated as “in compliance” in a previous formal written communication, unless material information regarding the article or management’s or the board’s actions have changed since the previous communication.

When the OCC has provided the bank with written communications regarding the status of enforcement action articles throughout the supervisory cycle, the ROE may summarize the status of these enforcement action articles and reference relevant written communications. Write-ups for these articles should be included if the article’s status has changed since the previous written communication.

Refer to OCC Bulletin 2018-41 and its attachment, PPM 5310-3, for more information about the required language, content, and structure of this section.

## Violations of Laws and Regulations

This section, commonly referred to as the “Violations” section, is required when the OCC is citing new or repeat violations. This includes when the OCC is citing violations in a separate document (e.g., a list provided to management during the exit meeting).

This section should also be used to summarize the status of violations that were outstanding during the supervisory cycle. Management’s correction of violations that were outstanding during the supervisory cycle may alternatively be stated in the ECC section of the ROE.

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<sup>76</sup> A bank’s compliance with IMCRs may be discussed elsewhere in the ROE, such as the ECC page or Capital Adequacy component page.

## Citing Violations in the ROE

Write-ups of violations of laws or regulations included in the ROE or a supervisory letter for the first time must include the following:

- The legal citation (for example, 12 USC 84 and 12 CFR 32) and name or title of the citation (for example, Lending Limits).
- A description of the relevant statutory or regulatory requirement.
- Initial attributes (as appropriate): new, repeat, or self-identified.
- Follow-up attributes (as appropriate): past due, pending validation, or closed.
- Facts supporting the violation (attributes and cause),<sup>77</sup> such as date(s) or date range of the violation, dollar amounts, duration of the violation, or recurrences. The individual(s) responsible should be named, if known and relevant.
- Corrective action(s) for the violation. Include the rationale for a decision not to include corrective actions (e.g., for violations that are not correctable). Corrective actions for violations are mandatory and must not include recommendations.
- Commitment to corrective actions, including time frames and names of the persons responsible for corrective actions, or a statement that management's written response will include the commitment to corrective action.

Examiners may use discretion in organizing violations in the “Violations” section. Examiners may cite violations in order of significance, or they may group the violations by citation. Examiners must communicate deficient practices that contributed to violations as concerns in an MRA unless the bank has already corrected the concerns.

If examiners communicated violations in supervisory letters during the supervisory cycle, the “Violations” section of the ROE may summarize the status of violations conveyed in those letters instead of including a detailed write-up of each violation.

## Communicating Status of Violations Outstanding During the Supervisory Cycle

The ROE must include the status of outstanding violations previously communicated to the bank in writing,<sup>78</sup> using the following guidelines:

- Full write-ups are not required unless the violation has become past due, or the corrective action, commitment, or other material information regarding the violation has changed since the last time the bank was informed of the violation's status in writing.
- Closed violations generally do not require a full write-up; the ROE should state the citation and indicate the violation was closed.

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<sup>77</sup> If the cause is not apparent, examiners may direct management to perform a root-cause analysis as a corrective action.

<sup>78</sup> A violation is considered to be communicated to a bank in writing if it was communicated in an ROE, a supervisory letter, or a separate document.

### **Citing Violations in a Separate Document**

If examiners cite violations in a separate document (e.g., a list provided to management during the exit meeting), the ROE must include the following statement: “Examiners provided management a separate document detailing less substantive violations on [date]. Management must correct all existing violations and prevent future violations from occurring.”

For more information, refer to the “Violations of Laws and Regulations” section of this booklet.

### **Component Rating Narrative Sections (Except Management or Risk Management Component Rating Sections)**

Sections for the bank’s component ratings are required when the component is rated 3 or worse, except for the management page, which is required. Component rating pages present support for overall conclusions discussed on the ECC page of the ROE and can reference MRAs, enforcement actions, and violations, as appropriate.

Headings at the beginning of each section identify factors related to evaluating that area. The narrative comments do not have to address all the factors listed in each page heading. Comments should address only the factors having significant influence on an area’s evaluation. Discussions related to other ROE comments may be referenced. Ratios or comparisons to peer averages in report narratives can be helpful but should be presented in proper perspective and thoroughly explained to promote full understanding by the board and management.

Narrative comments can be used to explain significant variances in ratios and data between the examination “as of” date and its actual “start” date. This is particularly important if variances affect examination conclusions.

### **Concentrations**

This page is required when concentration levels pose a challenge for management or present unusual or significant risk to the bank.

This page includes a table of concentration exposures and may include narrative. Examiners should use judgment in determining which concentrations to include in the table. Concentrations that pose a challenge to management or present unusual or significant risk to the bank must be listed. The table may include significant or poorly managed liability concentrations.

For concentrations that pose a challenge to management or present unusual or significant risk to the bank, narrative comments should address, as necessary, the quality of concentration risk management, appropriateness of risk limits, and accuracy of reporting.

Refer to the “Concentrations of Credit” booklet of the *Comptroller’s Handbook* when preparing the Concentrations page.

### Summary of Items Subject to Adverse Classification/Summary of Items Listed as Special Mention (Data Page)

This section is required for community bank ROEs and discretionary for other ROEs. It summarizes the bank’s classified and special mention asset totals in summary tables, as shown by examples in tables 4 and 5. The following is an example of the format that should be used. This section of the ROE does not include narrative.

**Table 4: Example of Classified Assets Presentation**

Asset category \$(000s)	Adversely classified			
	Substandard	Doubtful	Loss	Total
Loans/leases	1,235	0	0	1,235
Securities	0	0	0	0
Other real estate owned	456	0	0	456
Other assets	0	0	0	0
Totals at review date (9/30/20XX)	1,691	0	0	1,691
Totals at prior review date (3/31/20XX)	2,765	0	0	2,765

**Table 5: Example of Special Mention Items Presentation**

Summary of items listed as special mention		
\$(000s)	Review date	Prior review date
	9/30/20XX	3/31/20XX
Loans/leases	645	256

### Items Subject to Adverse Classification or Listed for Special Mention (Loan Write-Ups)

This section is required when loan write-ups are required to be included in the ROE. It may also be used on a discretionary basis when loan write-ups are recommended. Refer to the “Rating Credit Risk” booklet of the *Comptroller’s Handbook* for circumstances in which loan write-ups are required or recommended.

## Discretionary Sections

The discretionary sections are used to support examination conclusions and concerns, as appropriate. They should not be used if a mandatory section narrative can effectively support examination conclusions.

### Credit Underwriting Weaknesses

This section may be used when there are weaknesses in a bank's credit underwriting or credit administration practices that warrant communication to bank management. This section may be used to list and provide brief information about loans or portfolios with material underwriting or credit administration exceptions and weaknesses. If applicable, this section may be used to summarize emerging underwriting or credit administration exceptions, weaknesses, or risks.

This section can include a table listing each relevant loan relationship with Xs to indicate the exceptions and weaknesses in the credit. When the table is used, it also typically indicates the total number of OCC-reviewed loans with exceptions or weaknesses and such loans as percentages of the OCC's loan sample and the bank's capital. Narrative commentary may follow the table. Table 6 is an example of an underwriting and credit administration weaknesses table.

**Table 6: Example of Credit Underwriting and Credit Administration Weaknesses Table**

Loan identification	Loan type	Amount outstanding \$(000's)	Indefinite or speculative purpose	No or inadequate construction inspection	Waived or unenforced negative covenant compliance	Inadequate collateral valuation	Inadequate financial analysis
Loan A*	Commercial	\$1,234	X	X			
Loan B*	Commercial	\$2,345		X			
Loan C	Commercial	\$1,457			X		
Loan D	Commercial					X	X

\* Denotes relationships rated Special Mention or Substandard

### Comparative Statements of Financial Condition (Data Page)

This page may be used to compare the balance sheet at two points in time, such as the ROE's financial as-of date versus another relevant period end.



## **Analysis of Earnings (Data Page)**

This page provides an analysis of the bank's earnings, such as comparative statements of income on separate dates, reconciliation of the allowance for loan and lease losses (ALLL) on separate dates, and other component ratios and trends over time. This page is structured in a table format.

## **Other Supplemental Sections or Pages**

Examiners may use supplemental sections or pages to present supporting information not captured in other ROE sections. Supplemental pages or sections do not have predefined titles or structure and provide for flexibility beyond the required and discretionary sections. For example, examination comments related to a bank's retail nondeposit investment products (e.g., mutual funds and annuities) could be included on a supplemental page. The page would be titled "Retail Nondeposit Investment Products"; each product could be discussed under a separate subheading. If comments on any product are lengthy, the product should be featured on its own page.

# Uniform Financial Institutions Rating System (Commonly Known as CAMELS)

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The FFIEC adopted the UFIRS in 1979 and revised it in 1996.<sup>79</sup> Under the UFIRS, the supervisory agencies endeavor to ensure that all financial institutions are evaluated in a comprehensive and uniform manner and that supervisory attention is appropriately focused on the financial institutions exhibiting financial and operational weaknesses or adverse trends. The UFIRS serves as a useful vehicle for identifying problem or deteriorating financial institutions, as well as for categorizing institutions with deficiencies in particular component areas. Further, the rating system assists Congress in following safety and soundness trends and in assessing the aggregate strength and soundness of the financial industry. The UFIRS assists the agencies in fulfilling their collective mission of maintaining stability and public confidence in the nation's financial system.

The rating system is commonly referred to as the CAMELS rating system because it assesses six components of a bank's performance: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk. Under the UFIRS, each bank is assigned a composite rating based on an evaluation and rating of six essential components of the institution's financial condition and operations. The rating is based on a scale of 1 through 5 in ascending order of supervisory concern, with 1 representing the strongest performance and management practices and least degree of supervisory concern, and 5 representing the weakest performance and management practices and highest degree of supervisory concern.

Evaluations of the components consider the institution's size and sophistication, the nature and complexity of its activities, and its risk profile. The UFIRS takes into consideration certain financial, managerial, and compliance factors that are common to all financial institutions. Examiners have the flexibility to consider any other evaluation factors that, in their judgment, relate to the component area under review. The evaluation factors listed under a component area are not intended to be all-inclusive, but rather a list of the more common factors considered under that component.

Each component is interrelated with one or more other components. For example, the level of problem assets in an institution is a primary consideration in assigning an asset quality component rating. But it is also an item that affects the capital adequacy and earnings component ratings. The level of market risk and the quality of risk management practices are elements that also can affect several components. Examiners consider relevant factors and their interrelationship among components when assigning ratings.

The OCC considers BSA/AML examination findings in a safety and soundness context when assigning the management component rating. Serious deficiencies in a bank's BSA/AML

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<sup>79</sup> This appendix contains excerpts from 61 Fed. Reg. 67021–67029, “Uniform Financial Institutions Rating System” and “Joint Interagency Common Questions and Answers on the Revised Uniform Financial Institutions Rating System” (refer to OCC Bulletin 1997-14, “Uniform Financial Institutions Rating System and Disclosure of Component Ratings: Questions and Answers”).

compliance create a presumption that the management rating will be adversely affected because risk management practices are less than satisfactory. Examiners should document application of this approach in their written comments in the OCC's supervisory information systems, and in supervisory communications, when appropriate.<sup>80</sup>

Specialty examination findings and the ratings assigned to those areas are taken into consideration, as appropriate, when examiners assign component and composite ratings under UFIRS.

## Composite CAMELS Ratings

The composite rating generally bears a close relationship to the component ratings assigned, but the composite rating is not derived by computing an arithmetic average of the component ratings. When examiners assign a composite rating, some components may be given more weight than others depending on the situation at the institution. In general, assignment of a composite rating may incorporate any factor that bears significantly on the overall condition and soundness of the financial institution. Assigned composite and component ratings are disclosed to the institution's board and senior management.

Management's ability to respond to changing circumstances and to address the risks that may arise from changing business conditions, or the initiation of new activities or products, is an important factor in evaluating a financial institution's overall risk profile and the level of supervisory attention warranted. For this reason, examiners give the management component special consideration when assigning the bank's composite rating.

Examiners take into account management's ability to identify, measure, monitor, and control the bank's risks when assigning each component rating. Appropriate management practices vary considerably among financial institutions, depending on their size, complexity, and risk profile. For less complex institutions engaged solely in traditional banking activities and whose directors and senior managers, in their respective roles, are actively involved in the oversight and management of day-to-day operations, relatively basic management systems and controls may be adequate. At more complex institutions, detailed and formal management systems and controls are needed to address their broader range of financial activities and to provide senior managers and directors, in their respective roles, with the information they need to monitor and direct day-to-day activities. All institutions are expected to properly manage their risks. For less complex institutions engaging in less sophisticated risk-taking activities, detailed or highly formalized management systems and controls are not required to receive strong or satisfactory component or composite ratings. Table 7 lists the definitions of the CAMELS composite ratings.

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<sup>80</sup> Refer to OCC Bulletin 2012-30, "BSA/AML Compliance Examinations: Consideration of Findings in Uniform Rating and Risk Assessment Systems."

**Table 7: Composite CAMELS Ratings**

1	Financial institutions in this group are sound in every respect and generally have components rated 1 or 2. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. These financial institutions are the most capable of withstanding the vagaries of business conditions and are resistant to outside influences, such as economic instability in their trade area. These financial institutions are in substantial compliance with laws and regulations. As a result, these financial institutions exhibit the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile, and give no cause for supervisory concern.
2	Financial institutions in this group are fundamentally sound. For a financial institution to receive this rating, generally no component rating should be more severe than 3. Only moderate weaknesses are present, and they are well within the board's and management's capabilities and willingness to correct. These financial institutions are stable and are capable of withstanding business fluctuations. These financial institutions are in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile. There are no material supervisory concerns, and, as a result, the supervisory response is informal and limited.
3	Financial institutions in this group exhibit some degree of supervisory concern in one or more of the component areas. These financial institutions exhibit a combination of weaknesses that may range from moderate to severe; however, the magnitude of the deficiencies generally will not cause a component to be rated more severely than 4. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Financial institutions in this group generally are less capable of withstanding business fluctuations and are more vulnerable to outside influences than those institutions rated a composite 1 or 2. Additionally, these financial institutions may be in significant noncompliance with laws and regulations. Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile. These financial institutions require more than normal supervision, which may include formal or informal enforcement actions. Failure appears unlikely, however, given the overall strength and financial capacity of these institutions.
4	Financial institutions in this group generally exhibit unsafe and unsound practices or conditions. There are serious financial or managerial deficiencies that result in unsatisfactory performance. The problems range from severe to critically deficient. The weaknesses and problems are not being satisfactorily addressed or resolved by the board and management. Financial institutions in this group generally are not capable of withstanding business fluctuations. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the institution's size, complexity, and risk profile. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems. Institutions in this group pose a risk to the deposit insurance fund. Failure is a distinct possibility if the problems and weaknesses are not satisfactorily addressed and resolved.
5	Financial institutions in this group exhibit extremely unsafe and unsound practices or conditions; exhibit a critically deficient performance; often demonstrate inadequate risk management practices relative to the institution's size, complexity, and risk profile; and are of the greatest supervisory concern. The volume and severity of problems are beyond management's ability or willingness to control or correct. Immediate outside financial or other assistance is needed in order for the financial institution to be viable. Ongoing supervisory attention is necessary. Institutions in this group pose a significant risk to the deposit insurance fund and failure is highly probable.

## Component Ratings

Each of the component rating descriptions is divided into three sections: an introductory paragraph; a list of the principal evaluation factors that relate to that component; and a brief description of each numerical rating for that component. Some of the evaluation factors are reiterated under one or more of the other components to reinforce the interrelationship among components. The listing of evaluation factors for each component rating is in no particular order of importance. Each component rating is based on a qualitative analysis of the factors comprising that component and its interrelationship with the other components.

## Capital Adequacy

A financial institution is expected to maintain capital commensurate with the nature and extent of risks to the institution and the ability of management to identify, measure, monitor, and control these risks. The effect of credit, market, and other risks on the institution's financial condition should be considered when evaluating the adequacy of capital. The types and quantity of risk inherent in an institution's activities determine the extent to which it may be necessary to maintain capital at levels above required regulatory minimums to properly reflect the potentially adverse consequences that these risks may have on the institution's capital.

The capital adequacy of an institution is rated based on, but not limited to, an assessment of the following evaluation factors:

- The level and quality of capital and the overall financial condition of the institution.
- The ability of management to address emerging needs for additional capital.
- The nature, trend, and volume of problem assets, and the adequacy of allowances for loan and lease losses and other valuation reserves.
- The balance-sheet composition, including the nature and amount of intangible assets, market risk, concentration risk, and risks associated with nontraditional activities.
- Risk exposure represented by off-balance-sheet activities.
- The quality and strength of earnings, and reasonableness of dividends.
- Prospects and plans for growth, as well as past experience in managing growth.
- The bank's access to capital markets and other sources of capital, including support provided by a parent holding company.

Table 8 lists the definitions of the capital adequacy component ratings.

**Table 8: Capital Adequacy Component Ratings**

<b>1</b>	A rating of 1 indicates a strong capital level relative to the institution's risk profile.
<b>2</b>	A rating of 2 indicates a satisfactory capital level relative to the financial institution's risk profile.
<b>3</b>	A rating of 3 indicates a less than satisfactory level of capital that does not fully support the institution's risk profile. The rating indicates a need for improvement, even if the institution's capital level exceeds minimum regulatory and statutory requirements.
<b>4</b>	A rating of 4 indicates a deficient level of capital. In light of the institution's risk profile, viability of the institution may be threatened. Assistance from shareholders or other external sources of financial support may be required.
<b>5</b>	A rating of 5 indicates a critically deficient level of capital such that the institution's viability is threatened. Immediate assistance from shareholders or other external sources of financial support is required.

## Asset Quality

The asset quality rating reflects the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, and other assets, as well as off-balance-sheet transactions. The ability of management to identify, measure, monitor, and

control credit risk also is reflected here. The evaluation of asset quality should consider the adequacy of ALLL and weigh the exposure to counterparty, issuer, or borrower default under actual or implied contractual agreements. All other risks that may affect the value or marketability of an institution's assets, including, but not limited to, operating, market, reputation, strategic, or compliance risks, should also be considered.

The asset quality of a financial institution is rated based on an assessment of the following evaluation factors:

- The adequacy of underwriting standards, soundness of credit administration practices, and appropriateness of risk identification practices.
- The level, distribution, severity, and trend of problem, classified, nonaccrual, restructured, delinquent, and nonperforming assets for both on- and off-balance-sheet transactions.
- The adequacy of ALLL and other asset valuation reserves.
- The bank's credit risk arising from or reduced by off-balance-sheet transactions, such as unfunded commitments, credit derivatives, commercial and standby letters of credit, and lines of credit.
- The diversification and quality of the loan and investment portfolios.
- The extent of securities underwriting activities and exposure to counterparties in trading activities.
- The existence of asset concentrations.
- The adequacy of loan and investment policies, procedures, and practices.
- The ability of management to properly administer its assets, including the timely identification and collection of problem assets.
- The adequacy of internal controls and management information systems.
- The volume and nature of credit documentation exceptions.

Table 9 lists the definitions of the asset quality component ratings.

**Table 9: Asset Quality Component Ratings**

<b>1</b>	A rating of 1 indicates strong asset quality and credit administration practices. Identified weaknesses are minor in nature and risk exposure is modest in relation to capital protection and management's abilities. Asset quality in such institutions is of minimal supervisory concern.
<b>2</b>	A rating of 2 indicates satisfactory asset quality and credit administration practices. The level and severity of classifications and other weaknesses warrant a limited level of supervisory attention. Risk exposure is commensurate with capital protection and management's abilities.
<b>3</b>	A rating of 3 is assigned when asset quality or credit administration practices are less than satisfactory. Trends may be stable or indicate deterioration in asset quality or an increase in risk exposure. The level and severity of classified assets, other weaknesses, and risks require an elevated level of supervisory concern. There is generally a need to improve credit administration and risk management practices.
<b>4</b>	A rating of 4 is assigned to financial institutions with deficient asset quality or credit administration practices. The levels of risk and problem assets are significant and inadequately controlled, and they subject the financial institution to potential losses that, if left unchecked, may threaten its viability.
<b>5</b>	A rating of 5 represents critically deficient asset quality or credit administration practices that present an imminent threat to the institution's viability.

## Management

This rating reflects the capability of the board and management, in their respective roles, to identify, measure, monitor, and control the risks of a bank's activities and to ensure a bank's safe, sound, and efficient operation in compliance with applicable laws and regulations. Generally, directors need not be actively involved in day-to-day operations; they should, however, provide clear guidance regarding acceptable risk exposure levels and ensure that appropriate policies, procedures, and practices have been established. Senior management is responsible for developing and implementing policies, procedures, and practices that translate the board's goals, objectives, and risk limits into prudent operating standards.<sup>81</sup>

Depending on the nature and scope of an institution's activities, management practices may need to address some or all of the following risks: credit, market, operating or transaction, ~~reputation~~, strategic, compliance, legal, liquidity, and other risks. Sound management practices are demonstrated by active oversight by the board and management; competent personnel; adequate policies, processes, and controls taking into consideration the size and sophistication of the institution; maintenance of an appropriate audit program and internal control environment; and effective risk monitoring and management information systems. This rating should reflect the board's and management's ability as it applies to all aspects of banking operations as well as other financial service activities in which the institution is involved. The OCC considers BSA/AML examination findings when assigning the management rating, since serious BSA/AML deficiencies create a presumption that the rating will be adversely affected.<sup>82</sup>

The capability and performance of management and the board is rated based on an assessment of the following evaluation factors:

- The level and quality of oversight and support of all institution activities by the board and management.
- The ability of the board and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the initiation of new activities or products.
- The adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities.
- The accuracy, timeliness, and effectiveness of management information and risk monitoring systems appropriate for the institution's size, complexity, and risk profile.
- The adequacy of audits and internal controls to promote effective operations and reliable financial and regulatory reporting; safeguard assets; and ensure compliance with laws, regulations, and internal policies.
- Compliance with laws and regulations.
- Responsiveness to recommendations from auditors and supervisory authorities.

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<sup>81</sup> Refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook* for more information regarding the role of bank management and the board.

<sup>82</sup> Refer to OCC Bulletin 2012-30.

- Management depth and succession.
- The extent that the board and management are affected by, or susceptible to, a dominant influence or concentration of authority.
- The reasonableness of compensation policies and avoidance of self-dealing.
- The demonstrated willingness to serve the legitimate banking needs of the community.
- The overall performance of the bank and its risk profile.

Table 10 lists the definitions of the management component ratings.

**Table 10: Management Component Ratings**

<b>1</b>	A rating of 1 indicates strong performance by management and the board and strong risk management practices relative to the institution's size, complexity, and risk profile. All significant risks are consistently and effectively identified, measured, monitored, and controlled. Management and the board have demonstrated the ability to promptly and successfully address existing and potential problems and risks.
<b>2</b>	A rating of 2 indicates satisfactory management and board performance and risk management practices relative to the institution's size, complexity, and risk profile. Minor weaknesses may exist but are not material to the safety and soundness of the institution and are being addressed. In general, significant risks and problems are effectively identified, measured, monitored, and controlled.
<b>3</b>	A rating of 3 indicates management and board performance that need improvement or risk management practices that are less than satisfactory given the nature of the institution's activities. The capabilities of management or the board may be insufficient for the type, size, or condition of the institution. Problems and significant risks may be inadequately identified, measured, monitored, or controlled.
<b>4</b>	A rating of 4 indicates deficient management and board performance or risk management practices that are inadequate considering the nature of an institution's activities. The level of problems and risk exposure is excessive. Problems and significant risks are inadequately identified, measured, monitored, or controlled and require immediate action by the board and management to preserve the soundness of the institution. Replacing or strengthening management or the board may be necessary.
<b>5</b>	A rating of 5 indicates critically deficient management and board performance or risk management practices. Management and the board have not demonstrated the ability to correct problems and implement appropriate risk management practices. Problems and significant risks are inadequately identified, measured, monitored, or controlled and now threaten the continued viability of the institution. Replacing or strengthening management or the board is necessary.

## Earnings

This rating reflects not only the quantity and trend of earnings but also factors that may affect the sustainability or quality of earnings. The quantity as well as the quality of earnings can be affected by excessive or inadequately managed credit risk that may result in loan losses and require additions to ALLL, or by high levels of market risk that may unduly expose an institution's earnings to volatility in interest rates. The quality of earnings may be diminished by undue reliance on extraordinary gains, nonrecurring events, or favorable tax effects. Future earnings may be adversely affected by an inability to forecast or control funding and operating expenses, improperly executed or ill-advised business strategies, or poorly managed or uncontrolled exposure to other risks.



The rating of an institution's earnings is based on an assessment of the following evaluation factors:

- The level of earnings, including trends and stability.
- The ability to provide for adequate capital through retained earnings.
- The quality and sources of earnings.
- The level of expenses in relation to operations.
- The adequacy of the budgeting systems, forecasting processes, and management information systems in general.
- The adequacy of provisions to maintain ALLL and other valuation allowance accounts.
- The exposure of earnings to market risk, such as interest rate, foreign exchange, and price risks.

Table 11 lists the definitions of the earnings component ratings.

**Table 11: Earnings Component Ratings**

<b>1</b>	A rating of 1 indicates earnings that are strong. Earnings are more than sufficient to support operations and maintain adequate capital and allowance levels after consideration is given to asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings.
<b>2</b>	A rating of 2 indicates earnings that are satisfactory. Earnings are sufficient to support operations and maintain adequate capital and allowance levels after consideration is given to asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings. Earnings that are relatively static, or even experiencing a slight decline, may receive a 2 rating provided the institution's level of earnings is adequate in view of the assessment factors listed above.
<b>3</b>	A rating of 3 indicates earnings that need to be improved. Earnings may not fully support operations and provide for the accretion of capital and allowance levels in relation to the institution's overall condition, growth, and other factors affecting the quality, quantity, and trend of earnings.
<b>4</b>	A rating of 4 indicates earnings that are deficient. Earnings are insufficient to support operations and maintain appropriate capital and allowance levels. Institutions so rated may be characterized by erratic fluctuations in net income or net interest margin, the development of significant negative trends, nominal or unsustainable earnings, intermittent losses, or a substantive drop in earnings from the previous years.
<b>5</b>	A rating of 5 indicates earnings that are critically deficient. A financial institution with earnings rated 5 is experiencing losses that represent a distinct threat to its viability through the erosion of capital.

## Liquidity

In evaluating the adequacy of a financial institution's liquidity position, consideration should be given to the current level and prospective sources of liquidity compared with funding needs, as well as to the adequacy of funds management practices relative to the institution's size, complexity, and risk profile. In general, funds management practices should ensure that an institution is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and to fulfill the legitimate banking needs of its community. Practices should reflect the ability of the institution to manage unplanned changes in funding sources, as well as react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. In addition, funds management practices should ensure that liquidity is not maintained at a high cost, or through undue reliance on funding sources that may not be available in times of financial stress or adverse changes in market conditions.

Liquidity is rated based on an assessment of the following evaluation factors:

- The adequacy of liquidity sources to meet present and future needs and the ability of the institution to meet liquidity needs without adversely affecting its operations or condition.
- The availability of assets readily convertible to cash without undue loss.
- The access to money markets and other sources of funding.
- The level of diversification of funding sources, both on and off the balance sheet.
- The degree of reliance on short-term, volatile sources of funds, including borrowings and brokered deposits, to fund longer-term assets.
- The trend and stability of deposits.
- The ability to securitize and sell certain pools of assets.
- Management's capability to properly identify, measure, monitor, and control the institution's liquidity position, including the effectiveness of funds management strategies, liquidity policies, management information systems, and contingency funding plans.

Table 12 lists the definitions of the liquidity component ratings.

**Table 12: Liquidity Component Ratings**

<b>1</b>	A rating of 1 indicates strong liquidity levels and well-developed funds management practices. The institution has reliable access to sufficient sources of funds on favorable terms to meet present and anticipated liquidity needs.
<b>2</b>	A rating of 2 indicates satisfactory liquidity levels and funds management practices. The institution has access to sufficient sources of funds on acceptable terms to meet present and anticipated liquidity needs. Modest weaknesses may be evident in funds management practices.
<b>3</b>	A rating of 3 indicates liquidity levels or funds management practices in need of improvement. Institutions rated 3 may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices.
<b>4</b>	A rating of 4 indicates deficient liquidity levels or inadequate funds management practices. Institutions rated 4 may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet liquidity needs.
<b>5</b>	A rating of 5 indicates liquidity levels or funds management practices so critically deficient that the continued viability of the institution is threatened. Institutions rated 5 require immediate external financial assistance to meet maturing obligations or other liquidity needs.

## Sensitivity to Market Risk

The sensitivity to market risk component reflects the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect a financial institution's earnings or economic capital. When evaluating this component, consideration should be given to management's ability to identify, measure, monitor, and control market risk; the institution's size; the nature and complexity of its activities; and the adequacy of its capital and earnings in relation to its level of market risk exposure.

For many institutions, the primary source of market risk arises from nontrading positions and their sensitivity to changes in interest rates. In some larger institutions, foreign operations can

be a significant source of market risk. For some institutions, trading activities are a major source of market risk.

Market risk is rated based on an assessment of the following evaluation factors:

- The sensitivity of the financial institution’s earnings or the economic value of its capital to adverse changes in interest rates, foreign exchanges rates, commodity prices, or equity prices.
- The ability of management to identify, measure, monitor, and control exposure to market risk given the institution’s size, complexity, and risk profile.
- The nature and complexity of interest rate risk exposure arising from nontrading positions.
- If appropriate, the nature and complexity of market risk exposure arising from trading, asset management activities, and foreign operations.

Table 13 lists the definitions of the sensitivity to market risk component ratings.

**Table 13: Sensitivity to Market Risk Component Ratings**

<b>1</b>	A rating of 1 indicates that market risk sensitivity is well controlled and that there is minimal potential that the earnings performance or capital position will be adversely affected. Risk management practices are strong for the size, sophistication, and market risk accepted by the institution. The level of earnings and capital provide substantial support for the amount of market risk taken by the institution.
<b>2</b>	A rating of 2 indicates that market risk sensitivity is adequately controlled and that there is only moderate potential that the earnings performance or capital position will be adversely affected. Risk management practices are satisfactory for the size, sophistication, and market risk accepted by the institution. The level of earnings and capital provide adequate support for the amount of market risk taken by the institution.
<b>3</b>	A rating of 3 indicates that control of market risk sensitivity needs improvement or that there is significant potential that the earnings performance or capital position will be adversely affected. Risk management practices need to be improved given the size, sophistication, and level of market risk accepted by the institution. The level of earnings and capital may not adequately support the amount of market risk taken by the institution.
<b>4</b>	A rating of 4 indicates that control of market risk sensitivity is unacceptable or that there is high potential that the earnings performance or capital position will be adversely affected. Risk management practices are deficient for the size, sophistication, and level of market risk accepted by the institution. The level of earnings and capital provide inadequate support for the amount of market risk taken by the institution.
<b>5</b>	A rating of 5 indicates that control of market risk sensitivity is unacceptable or that the level of market risk taken by the institution is an imminent threat to its viability. Risk management practices are wholly inadequate for the size, sophistication, and level of market risk accepted by the institution.

# Uniform Rating System for Information Technology

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On January 13, 1999, the FFIEC issued the Uniform Rating System for Information Technology (URSIT) to uniformly assess financial institution and service provider risks introduced by IT.<sup>83</sup>

## Overview

Examiners assign a composite-only rating to all banks and their operating subsidiaries, and assign composite and component ratings to technology service providers.<sup>84</sup>

The URSIT consists of a composite and four component ratings:

- Audit
- Management
- Development and acquisition
- Support and delivery

Examiners focus on the risk issues inherent in automated information systems, rather than the functional activities rated by the URSIT components. These risk issues, common to all automated systems, include

- management of technology resources, whether in-house or outsourced.
- integrity of automated information (i.e., reliability of data and protection from unauthorized change).
- availability of automated information (i.e., adequacy of business resumption and contingency planning).
- confidentiality of information (i.e., protection from accidental or inadvertent disclosure).

These common technology risk issues are used to assess the overall performance of IT within an organization. Examiners evaluate each issue to assess the institution's ability to identify, measure, monitor, and control IT risks. Each institution is then assigned an URSIT composite rating based on the overall results of the evaluation. The rating is based on a scale of 1 through 5 in ascending order of supervisory concern, with 1 representing the best rating and least degree of concern, and 5 representing the worst rating and highest degree of concern.

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<sup>83</sup> 64 Fed. Reg. 3109-3116, "Uniform Rating System for Information Technology," January 20, 1999. The OCC implemented the URSIT rating system for all banks and OCC-supervised service provider examinations that began after April 1, 1999. The URSIT replaced the rating system for information systems adopted in 1978.

<sup>84</sup> The OCC revised the application of the URSIT for examinations that began after April 1, 2001, to assign a composite-only IT rating to banks and their operating subsidiaries.

## URSIT Composite Ratings

**Table 14: URSIT Composite Ratings**

1	Financial institutions and service providers rated composite 1 exhibit strong performance in every respect and generally have components rated 1 or 2. Weaknesses in IT are minor in nature and are easily corrected during the normal course of business. Risk management processes provide a comprehensive program to identify and monitor risk relative to the size, complexity, and risk profile of the entity. Strategic plans are well defined and fully integrated throughout the organization. This allows management to quickly adapt to changing market, business, and technology needs of the entity. Management identifies weaknesses promptly and takes appropriate corrective action to resolve audit and regulatory concerns. The financial condition of the service provider is strong and overall performance shows no cause for supervisory concern.
2	Financial institutions and service providers rated composite 2 exhibit safe and sound performance but may demonstrate modest weaknesses in operating performance, monitoring, management processes, or system development. Generally, senior management corrects weaknesses in the normal course of business. Risk management processes adequately identify and monitor risk relative to the size, complexity, and risk profile of the entity. Strategic plans are defined but may require clarification, better coordination, or improved communication throughout the organization. As a result, management anticipates, but responds less quickly to, changes in market, business, and technological needs of the entity. Management normally identifies weaknesses and takes appropriate corrective action. Greater reliance is, however, placed on audit and regulatory intervention to identify and resolve concerns. The financial condition of the service provider is acceptable, and while internal control weaknesses may exist, there are no significant supervisory concerns. As a result, supervisory action is informal and limited.
3	Financial institutions and service providers rated composite 3 exhibit some degree of supervisory concern because of a combination of weaknesses that may range from moderate to severe. If weaknesses persist, further deterioration in the condition and performance of the institution or service provider is likely. Risk management processes may not effectively identify risks and may not be appropriate for the size, complexity, or risk profile of the entity. Strategic plans are vaguely defined and may not provide adequate direction for IT initiatives. As a result, management often has difficulty responding to changes in business, market, and technological needs of the entity. Self-assessment practices are weak and are generally reactive to audit and regulatory exceptions. Repeat concerns may exist, indicating that management may lack the ability or willingness to resolve concerns. The financial condition of the service provider may be weak or negative trends may be evident. While financial or operational failure is unlikely, increased supervision is necessary. Formal or informal supervisory action may be necessary to secure corrective action.
4	Financial institutions and service providers rated composite 4 operate in an unsafe and unsound environment that may impair the future viability of the entity. Operating weaknesses are indicative of serious managerial deficiencies. Risk management processes inadequately identify and monitor risk, and practices are not appropriate given the size, complexity, and risk profile of the entity. Strategic plans are poorly defined and not coordinated or communicated throughout the organization. As a result, management and the board are not committed to meeting technological needs and may be incapable of meeting those needs. Management does not perform self-assessments and demonstrates an inability or unwillingness to correct audit and regulatory concerns. The financial condition of the service provider is severely impaired or deteriorating. Failure of the financial institution or service provider may be likely unless IT problems are remedied. Close supervisory attention is necessary and, in most cases, formal enforcement action is warranted.
5	Financial institutions and service providers rated composite 5 exhibit critically deficient operating performance and are in need of immediate remedial action. Operational problems and serious weaknesses may exist throughout the organization. Risk management processes are severely deficient and provide management little or no perception of risk relative to the size, complexity, and risk profile of the entity. Strategic plans do not exist or are ineffective, and management and the board provide little or no direction for IT initiatives. As a result, management is unaware of, or inattentive to, technological needs of the entity. Management is unwilling to correct audit and regulatory concerns or is incapable of doing so. The financial condition of the service provider is poor and failure is highly probable because of poor operating performance or financial instability. Ongoing supervisory attention is necessary.

## URSIT Component Ratings

Each performance or component rating also ranges from 1 through 5, with 1 representing the highest and 5 the lowest rating. Each functional area of activity (audit, management, development and acquisition, and support and delivery) must be evaluated to determine its individual performance rating.

### Audit

Financial institutions and service providers are expected to provide independent assessments of their exposure to risks and the quality of internal controls associated with the acquisition, implementation, and use of IT. Audit practices should address the IT risk exposures throughout the institution and its service provider(s) in the areas of user and data center operations, client/server architecture, local and wide-area networks, telecommunications, information security, electronic data interchange, systems development, and contingency planning. This rating should reflect the adequacy of the organization's overall IT audit program, including the internal and external audit function's abilities to detect and report significant risks to management and the board of directors on a timely basis. It should also reflect the internal and external auditor's capability to promote a safe, sound, and effective operation.

The performance of the audit function is rated based on an assessment of factors, such as the following:

- The level of independence maintained by audit and the quality of the oversight and support provided by the board of directors and management.
- The adequacy of audit's risk analysis methodology used to prioritize the allocation of audit resources and to formulate the audit schedule.
- The scope, frequency, accuracy, and timeliness of internal and external audit reports.
- The extent of audit participation in application development, acquisition, and testing, to ensure the effectiveness of internal controls and audit trails.
- The adequacy of the overall audit plan in providing appropriate coverage of IT risks.
- The auditor's adherence to codes of ethics and professional audit standards.
- The qualifications of the auditor, staff succession, and continued development through training.
- The existence of timely and formal follow-up and reporting on management's resolution of identified problems or weaknesses.
- The quality and effectiveness of internal and external audit activity as it relates to IT controls.

Table 15 lists the URSIT component rating definitions for the audit function.

**Table 15: URSIT Audit Component Rating Definitions**

1	A rating of 1 indicates strong audit performance. Audit independently identifies and reports weaknesses and risks to the board of directors or its audit committee in a thorough and timely manner. Outstanding audit issues are monitored until resolved. Risk analysis ensures that audit plans address all significant IT operations, procurement, and development activities with appropriate scope and frequency. Audit work is performed in accordance with professional auditing standards and report content is timely, constructive, accurate, and complete. Because audit is strong, examiners may place substantial reliance on audit results.
2	A rating of 2 indicates satisfactory audit performance. Audit independently identifies and reports weaknesses and risks to the board of directors or audit committee, but reports may be less timely. Significant outstanding audit issues are monitored until resolved. Risk analysis ensures that audit plans address all significant IT operations, procurement, and development activities; however, minor concerns may be noted with the scope or frequency. Audit work is performed in accordance with professional auditing standards; however, minor or infrequent problems may arise with the timeliness, completeness, and accuracy of reports. Because audit is satisfactory, examiners may rely on audit results, but because minor concerns exist, examiners may need to expand verification procedures in certain situations.
3	A rating of 3 indicates less than satisfactory audit performance. Audit identifies and reports weaknesses and risks; however, independence may be compromised and reports presented to the board or audit committee may be less than satisfactory in content and timeliness. Outstanding audit issues may not be adequately monitored. Risk analysis is less than satisfactory. As a result, the audit plan may not provide sufficient audit scope or frequency for IT operations, procurement, and development activities. Audit work is generally performed in accordance with professional auditing standards; however, occasional problems may be noted with the timeliness, completeness, or accuracy of reports. Because audit is less than satisfactory, examiners must use caution if they rely on the audit results.
4	A rating of 4 indicates deficient audit performance. Audit may identify weaknesses and risks, but it may not independently report to the board or audit committee and report content may be inadequate. Outstanding audit issues may not be adequately monitored and resolved. Risk analysis is deficient. As a result, the audit plan does not provide adequate audit scope or frequency for IT operations, procurement, and development activities. Audit work is often inconsistent with professional auditing standards, and the timeliness, accuracy, and completeness of reports is unacceptable. Because audit is deficient, examiners cannot rely on audit results.
5	A rating of 5 indicates critically deficient audit performance. If an audit function exists, it lacks sufficient independence and, as a result, does not identify and report weaknesses or risks to the board or audit committee. Outstanding audit issues are not tracked and no follow-up is performed to monitor their resolution. Risk analysis is critically deficient. As a result, the audit plan is ineffective and provides inappropriate audit scope and frequency for IT operations, procurement, and development activities. Audit work is not performed in accordance with professional auditing standards and major deficiencies are noted regarding the timeliness, accuracy, and completeness of audit reports. Because audit is critically deficient, examiners cannot rely on audit results.

## Management

This rating reflects the abilities of the board and management as they apply to all aspects of IT acquisition, development, and operations. Management practices may need to address some or all of the following IT-related risks: strategic planning, QA, project management, risk assessment, infrastructure and architecture, end-user computing, contract administration of third-party service providers, organization and human resources, and regulatory and legal compliance. Generally, directors need not be actively involved in day-to-day operations; however, they are responsible for providing clear guidance regarding acceptable risk exposure levels and confirming that appropriate policies, procedures, and practices have been established. Sound management practices are demonstrated through active oversight by the board of directors and management, competent personnel, sound IT plans, adequate policies

and standards, an effective control environment, and risk monitoring. This rating should reflect the ability of the board and management as it applies to all aspects of IT operations.

The performance of management and the quality of risk management are rated based on an assessment of factors such as the following:

- Level and quality of oversight and support of the IT activities by the board of directors and management.
- Ability of management to plan for and initiate new activities or products in response to information needs and to address risks that may arise from changing business conditions.
- Ability of management to provide information reports necessary for informed planning and decision-making in an effective and efficient manner.
- Adequacy of, and conformance with, internal policies and controls addressing the IT operations and risks of significant business activities.
- Effectiveness of risk monitoring systems.
- Timeliness of corrective action for reported and known problems.
- Level of awareness of and compliance with laws and regulations.
- Level of planning for management succession.
- Ability of management to monitor the services delivered and to measure the organization's progress toward identified goals in an effective and efficient manner.
- Adequacy of contracts and management's ability to monitor relationships with third-party servicers.
- Adequacy of strategic planning and risk management practices to identify, measure, monitor, and control risks, including management's ability to perform self-assessments.
- Ability of management to identify, measure, monitor, and control risks and to address emerging IT needs and solutions.

In addition, factors such as the following are included in the assessment of management at service providers:

- Financial condition and ongoing viability of the entity.
- Impact of external and internal trends and other factors on the ability of the entity to support continued servicing of client financial institutions.
- Propriety of contractual terms and plans.

**Table 16: URSIT Management Component Rating Definitions**

<b>1</b>	A rating of 1 indicates strong performance by management and the board. Effective risk management practices are in place to guide IT activities, and risks are consistently and effectively identified, measured, controlled, and monitored. Management immediately resolves audit and regulatory concerns to ensure sound operations. Written technology plans, policies and procedures, and standards are thorough and properly reflect the complexity of the IT environment. They have been formally adopted, communicated, and enforced throughout the organization. IT systems provide accurate, timely reports to management. These reports serve as the basis of major decisions and as an effective performance-monitoring tool. Outsourcing arrangements are based on comprehensive planning; routine management supervision sustains an appropriate level of control over vendor contracts, performance, and services provided. Management and the board have demonstrated the ability to promptly and successfully address existing IT problems and potential risks.
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**Table 16: URSIT Management Component Rating Definitions (continued)**

<b>2</b>	A rating of 2 indicates satisfactory performance by management and the board. Adequate risk management practices are in place and guide IT activities. Significant IT risks are identified, measured, monitored, and controlled; however, risk management processes may be less structured or inconsistently applied and modest weaknesses exist. Management routinely resolves audit and regulatory concerns to ensure effective and sound operations; however, corrective actions may not always be implemented in a timely manner. Technology plans, policies, procedures, and standards are adequate and are formally adopted. Minor weaknesses, however, may exist in management's ability to communicate and enforce them throughout the organization. IT systems provide quality reports to management that serve as a basis for major decisions and a tool for performance planning and monitoring. Isolated or temporary problems with timeliness, accuracy, or consistency of reports may exist. Outsourcing arrangements are adequately planned and controlled by management, and provide for a general understanding of vendor contracts, performance standards, and services provided. Management and the board have demonstrated the ability to address existing IT problems and risks successfully.
<b>3</b>	A rating of 3 indicates less than satisfactory performance by management and the board. Risk management practices may be weak and offer limited guidance for IT activities. Most IT risks are generally identified; however, processes to measure and monitor risk may be flawed. As a result, management's ability to control risk is less than satisfactory. Regulatory and audit concerns may be addressed, but time frames are often excessive and the corrective action taken may be inappropriate. Management may be unwilling to or incapable of addressing deficiencies. Technology plans, policies, procedures, and standards exist, but may be incomplete. They may not be formally adopted, effectively communicated, or enforced throughout the organization. IT systems provide requested reports to management, but periodic problems with accuracy, consistency, and timeliness lessen the reliability and usefulness of reports and may adversely affect decision-making and performance monitoring. Outsourcing arrangements may be entered into without thorough planning. Management may provide only cursory supervision that limits its understanding of vendor contracts, performance standards, and services provided. Management and the board may not be capable of addressing existing IT problems and risks, as evidenced by untimely corrective actions for outstanding IT problems.
<b>4</b>	A rating of 4 indicates deficient performance by management and the board. Risk management practices are inadequate and do not provide sufficient guidance for IT activities. Critical IT risks are not properly identified, processes to measure and monitor risks are not properly identified, and processes to measure and monitor risks are deficient. As a result, management may not be aware of and is unable to control risks. Management may be unwilling to or incapable of addressing audit and regulatory deficiencies in an effective and timely manner. Technology plans, policies and procedures, and standards are inadequate and have not been formally adopted or effectively communicated throughout the organization, and management does not effectively enforce them. IT systems do not routinely provide management with accurate, consistent, and reliable reports, thus contributing to ineffective performance monitoring or flawed decision-making. Outstanding arrangements may be entered into without planning or analysis, and management may provide little or no supervision of vendor contracts, performance standards, or services provided. Management and the board are unable to address existing IT problems and risks, as evidenced by ineffective actions and longstanding IT weaknesses. Strengthening of management and its processes is necessary. The financial condition of the service provider may threaten its viability.
<b>5</b>	A rating of 5 indicates critically deficient performance by management and the board. Risk management practices are severely flawed and provide inadequate guidance for IT activities. Critical IT risks are not identified, and processes to measure and monitor risks do not exist or are not effective. Management's inability to control risk may threaten the continued viability of the institution or service provider. Management is unable or unwilling to correct audit and regulatory identified deficiencies, and immediate action by the board is required to preserve the viability of the institution or service provider. If they exist, technology plans, policies, procedures, and standards are critically deficient. Because of systemic problems, IT systems do not produce management reports that are accurate, timely, or relevant. Outsourcing arrangements may have been entered into without management planning or analysis, resulting in significant losses to the financial institution or ineffective vendor services. The financial condition of the service provider presents an imminent threat to its viability.

## Development and Acquisition

This rating reflects an organization's ability to identify, acquire, install, and maintain appropriate IT solutions. Management practices may need to address all or parts of the business process for implementing any kind of change to the hardware or software used. These business processes include an institution's or service provider's purchase of hardware or software, development and programming performed by the institution or service provider, purchase of services from independent vendors or affiliated data centers, or a combination of these activities. The business process is defined as all phases taken to implement a change, including researching alternatives available, choosing an appropriate option for the organization as a whole, converting to the new system, or integrating the new system with existing systems. This rating reflects the adequacy of the institution's systems development methodology and related risk technology. This rating also reflects the board's and management's ability to enhance and replace IT prudently in a controlled environment.

The performance of systems development and acquisition and related risk management practice is rated based on an assessment of factors such as the following:

- Level and quality of oversight and support of systems development and acquisition activities by senior management and the board of directors.
- Adequacy of the organizational and management structures to establish accountability and responsibility for IT systems and technology initiatives.
- Volume, nature, and extent of risk exposure to the financial institution in the area of systems development and acquisition.
- Adequacy of the institution's system development life cycle (SDLC) and programming standards.
- Quality of project management programs and practices followed by developers, operators, executive management/owners, independent vendors or affiliated servicers, and end users.
- Independence of the QA function and the adequacy of controls over program changes.
- Quality and thoroughness of system documentation.
- Integrity and security of the network, system, and application software.
- Development of IT solutions that meet the needs of end users.
- Extent of end user involvement in the system development process.

In addition, factors such as the following are included in the assessment of development and acquisition at service providers:

- Quality of software releases and documentation.
- Adequacy of training provided to clients.

Table 17 lists the URSIT component rating definitions for development and acquisition.

**Table 17: URSIT Development and Acquisition Component Rating Definitions**

1	A rating of 1 indicates strong systems development, acquisition, implementation, and change management performance. Management and the board routinely demonstrate successfully the ability to identify and implement appropriate IT solutions while effectively managing risk. Project management techniques and the SDLC are fully effective and supported by written policies, procedures, and project controls that consistently result in timely and efficient project completion. An independent QA function provides strong controls over testing and program change management. Technology solutions consistently meet end-user needs. No significant weaknesses or problems exist.
2	A rating of 2 indicates satisfactory systems development, acquisition, implementation, and change management performance. Management and the board frequently demonstrate the ability to identify and implement appropriate IT solutions while managing risk. Project management and the SDLC are generally effective; however, weaknesses may exist that result in minor project delays or cost overruns. An independent QA function provides adequate supervision of testing and program change management, but minor weaknesses may exist. Technology solutions meet end-user needs. Minor enhancements may, however, be necessary to meet original user expectations. Weaknesses may exist; however, they are not significant and they are easily corrected in the normal course of business.
3	A rating of 3 indicates less than satisfactory systems development, acquisition, implementation, and change management performance. Management and the board may often be unsuccessful in identifying and implementing appropriate IT solutions; therefore, unwarranted risk exposure may exist. Project management techniques and the SDLC are weak and may result in frequent project delays, backlogs, or significant cost overruns. The QA function may not be independent of the programming function, which may adversely impact the integrity of testing, and program change management. Technology solutions generally meet end-user needs, but often require an inordinate level of change after implementation. Because of weaknesses, significant problems may arise that could result in disruption to operations or significant losses.
4	A rating of 4 indicates deficient systems development, acquisition, implementation, and change management performance. Management and the board may be unable to identify and implement appropriate IT solutions and do not effectively manage risk. Project management techniques and the SDLC are ineffective and may result in severe project delays and cost overruns. The QA function is not fully effective and may not provide independent or comprehensive review of testing controls or program change management. Technology solutions may not meet the critical needs of the organization. Problems and significant risks exist that require immediate action by the board and management to preserve the soundness of the institution.
5	A rating of 5 indicates critically deficient systems development, acquisition, implementation, and change management performance. Management and the board appear to be incapable of identifying and implementing appropriate IT solutions. If they exist, project management techniques and the SDLC are critically deficient and provide little or no direction for development of systems or technology projects. The QA function is severely deficient or not present, and unidentified problems in testing and program change management have caused significant IT risks. Technology solutions do not meet the needs of the organization. Serious problems and significant risks exist that raise concern for the financial institution or service provider's ongoing viability.

## Support and Delivery

This rating reflects an organization's ability to provide technology services in a secure environment. It reflects not only the condition of IT operations but also factors such as reliability, security, and integrity, which may affect the quality of the information delivery system. The factors include customer support and training, and the ability to manage problems and incidents, operations, system performance, capacity planning, and facility and data management. Risk management practices should promote effective, safe, and sound IT operations that ensure the continuity of operations and the reliability and availability of data. The scope of this component rating includes operational risks throughout the organization and service providers.

The rating of IT support and delivery is based on a review and assessment of requirements such as the following:

- Ability to provide a level of service that meets the requirements of the business.
- Adequacy of security policies, procedures, and practices in all units and at all levels of the financial institution and service providers.
- Adequacy of data controls over preparation, input, processing, and output.
- Adequacy of corporate contingency planning and business resumption for data centers, networks, service providers, and business units.
- Quality of processes or programs that monitor capacity and performance.
- Adequacy of controls and the ability to monitor controls at service providers.
- Quality of assistance provided to users, including the ability to handle problems.
- Adequacy of operating policies, procedures, and manuals.
- Quality of physical and logical security, including the privacy of data.
- Adequacy of firewall architectures and the security of connections with public networks.

In addition, factors such as the following are included in the assessment of support and delivery at service providers:

- Adequacy of customer service provided to clients.
- Ability of the entity to provide and maintain service-level performance that meets the requirements of the client.

Table 18 lists the URSIT component rating definitions for support and delivery.

**Table 18: URSIT Support and Delivery Component Rating Definitions**

<b>1</b>	A rating of 1 indicates strong IT support and delivery performance. The organization provides technology services that are reliable and consistent. Service levels adhere to well-defined service-level agreements and routinely meet or exceed business requirements. A comprehensive corporate contingency and business resumption plan is in place. Annual contingency plan testing and updating is performed, and critical systems and applications are recovered within acceptable time frames. A formal written data security policy and awareness program is communicated and enforced throughout the organization. The logical and physical security for all IT platforms is closely monitored, and security incidents and weaknesses are identified and quickly corrected. Relationships with third-party service providers are closely monitored. IT operations are highly reliable, and risk exposure is successfully identified and controlled.
<b>2</b>	A rating of 2 indicates satisfactory IT support and delivery performance. The organization provides technology services that are generally reliable and consistent; however, minor discrepancies in service levels may occur. Service performance adheres to service agreements and meets business requirements. A corporate contingency and business resumption plan is in place, but minor enhancements may be necessary. Annual plan testing and updating is performed, and minor problems may occur when recovering systems or applications. A written data security policy is in place but may require improvement to ensure its adequacy. The policy is generally enforced and communicated throughout the organization (e.g., through a security awareness program). The logical and physical security for critical IT platforms is satisfactory. Systems are monitored, and security incidents and weaknesses are identified and resolved within reasonable time frames. Relationships with third-party service providers are monitored. Critical IT operations are reliable, and risk exposure is reasonably identified and controlled.

**Table 18: URSIT Support and Delivery Component Rating Definitions (continued)**

<b>3</b>	A rating of 3 indicates that the performance of IT support and delivery is less than satisfactory and needs improvement. The organization provides technology services that may not be reliable or consistent. As a result, service levels periodically do not adhere to service-level agreements or meet business requirements. A corporate contingency and business resumption plan is in place but may not be considered comprehensive. The plan is periodically tested; however, the recovery of critical systems and applications is frequently unsuccessful. A data security policy exists; however, it may not be strictly enforced or communicated throughout the organization. The logical and physical security for critical IT platforms is less than satisfactory. Systems are monitored; however, security incidents and weaknesses may not be resolved in a timely manner. Relationships with third-party service providers may not be adequately monitored. IT operations are not acceptable, and unwarranted risk exposures exist. If not corrected, weaknesses could cause performance degradation or disruption to operations.
<b>4</b>	A rating of 4 indicates deficient IT support and delivery performance. The organization provides technology services that are unreliable and inconsistent. Service-level agreements are poorly defined, and service performance usually fails to meet business requirements. A corporate contingency and business resumption plan may exist, but its content is critically deficient. If contingency testing is performed, management is typically unable to recover critical systems and applications. A data security policy may not exist. As a result, serious supervisory concerns over security and the integrity of data exist. The logical and physical security for critical IT platforms is deficient. Systems may be monitored, but security incidents and weaknesses are not successfully identified or resolved. Relationships with third-party service providers are not monitored. IT operations are not reliable and significant risk exposure exists. Degradation in performance is evident and frequent disruption in operations has occurred.
<b>5</b>	A rating of 5 indicates critically deficient IT support and delivery performance. The organization provides technology services that are not reliable or consistent. Service-level agreements do not exist, and service performance does not meet business requirements. A corporate contingency and business resumption plan does not exist. Contingency testing is not performed, and management has not demonstrated the ability to recover critical systems and applications. A data security policy does not exist, and a serious threat to the organization's security and data integrity exists. The logical and physical security for critical IT platforms is inadequate, and management does not monitor systems for security incidents and weaknesses. Relationships with third-party service providers are not monitored, and the viability of a service provider may be in jeopardy. IT operations are severely deficient, and the seriousness of weaknesses could cause failure of the financial institution or service provider if not addressed.

# Uniform Interagency Trust Rating System

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The Uniform Interagency Trust Rating System (UITRS) was adopted in 1978 and revised in 1998. The UITRS considers certain managerial, operational, financial, and compliance factors that are common to all institutions with fiduciary activities. Under this system, the supervisory agencies endeavor to ensure that all institutions with fiduciary activities are evaluated in a comprehensive and uniform manner, and that supervisory attention is appropriately focused on those institutions exhibiting weaknesses in their fiduciary operations.

## Overview

Under the UITRS,<sup>85</sup> the fiduciary activities of financial institutions are assigned a composite rating based on an evaluation and rating of five essential components of an institution's fiduciary activities. These components are the capability of management; the adequacy of operations, controls and audits; the quality and level of earnings; compliance with governing instruments, applicable law (including self-dealing and conflicts of interest laws and regulations), and sound fiduciary principles; and the management of fiduciary assets.

Composite and component ratings are based on a scale of 1 to 5. A 1 is the highest rating; it indicates the strongest performance and risk management practices and the lowest degree of supervisory concern. A 5 is the lowest rating; it indicates the weakest performance and risk management practices and the highest degree of supervisory concern. Evaluation of the composite and component ratings considers the size and sophistication, the nature and complexity, and the risk profile of the institution's fiduciary activities.

The composite rating generally bears a close relationship to the component ratings assigned, but the composite rating is not derived by computing an arithmetic average of the component ratings. Each component rating is based on a qualitative analysis of the factors comprising that component and its interrelationship with the other components. When examiners assign a composite rating, some components may be given more weight than others depending on the situation at the institution. In general, assignment of a composite rating may incorporate any factor that bears significantly on the overall administration of the financial institution's fiduciary activities. Assigned composite and component ratings are disclosed to the institution's board and senior management.

Management's ability to respond to changing circumstances and to address the risks that may arise from changing business conditions, or the initiation of new fiduciary activities or products, is an important factor in evaluating an institution's overall fiduciary risk profile and the level of supervisory attention warranted. For this reason, the management component is given special consideration when examiners assign a composite rating. Management's ability to identify, measure, monitor, and control the risks of its fiduciary operations is also taken into account when assigning each component rating. Appropriate management practices may vary considerably among financial institutions, depending on the size, complexity, and risk

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<sup>85</sup> Excerpt is from 63 Fed. Reg. 54704-54711, "Uniform Interagency Trust Rating System."

profiles of their fiduciary activities. For less complex institutions engaged solely in traditional fiduciary activities and whose directors and senior managers are actively involved in the oversight and management of day-to-day operations, relatively basic management systems and controls may be adequate. At more complex institutions, detailed and formal management systems and controls are needed to address a broader range of activities and to provide senior managers and directors with the information they need to supervise day-to-day activities. All institutions are expected to properly manage their risks. For less complex institutions engaging in less risky activities, detailed or highly formalized management systems and controls are not required to receive strong or satisfactory component or composite ratings. The following two sections contain the composite rating definitions and the descriptions and definitions for the five component ratings.

## UITRS Composite Ratings

Composite ratings are based on an evaluation of how an institution conducts its fiduciary activities. The review encompasses the capability of management, the soundness of policies and practices, the quality of service rendered to the public, and the effect of fiduciary activities on the institution's soundness. The five key components used to assess an institution's fiduciary activities are the

- capability of management.
- adequacy of operations, controls, and audits.
- quality and level of earnings.
- compliance with governing instruments, applicable laws and regulations (including self-dealing and conflicts of interest laws and regulations), and sound fiduciary principles.
- management of fiduciary assets.

**Table 19: UITRS Composite Ratings**

<b>1</b>	Administration of fiduciary activities is sound in every respect. Generally all components are rated 1 or 2. Any weaknesses are minor and can be handled in a routine manner by management. The institution is in substantial compliance with fiduciary laws and regulations. Risk management practices are strong relative to the size, complexity, and risk profile of the institution's fiduciary activities. Fiduciary activities are conducted in accordance with sound fiduciary principles and give no cause for supervisory concern.
<b>2</b>	Administration of fiduciary activities is fundamentally sound. Generally no component rating should be more severe than 3. Only moderate weaknesses are present and are well within management's capabilities and willingness to correct. Fiduciary activities are conducted in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile. There are no material supervisory concerns and, as a result, the supervisory response is informal and limited.
<b>3</b>	Administration of fiduciary activities exhibits some degree of supervisory concern in one or more of the component areas. A combination of weaknesses exists that may range from moderate to severe; however, the magnitude of the deficiencies generally does not cause a component to be rated more severely than 4. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Additionally, fiduciary activities may reveal some significant noncompliance with laws and regulations. Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile. While problems of relative significance may exist, they are not of such importance as to pose a threat to the trust beneficiaries generally, or to the soundness of the institution. The institution's fiduciary activities require more than normal supervision and may include formal or informal enforcement actions.

**Table 19: UITRS Composite Ratings (continued)**

4	Fiduciary activities generally exhibit unsafe and unsound practices or conditions, resulting in unsatisfactory performance. The problems range from severe to critically deficient and may be centered on inexperienced or inattentive management, weak or dangerous operating practices, or an accumulation of unsatisfactory features of lesser importance. The weaknesses and problems are not being satisfactorily addressed or resolved by the board and management. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the size, complexity, and risk profile of fiduciary activities. These problems pose a threat to the account beneficiaries generally and, if left unchecked, could evolve into conditions that could cause significant losses to the institution and ultimately undermine the public confidence in the institution. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems.
5	Fiduciary activities are conducted in an extremely unsafe and unsound manner. Administration of fiduciary activities is critically deficient in numerous major respects, with problems resulting from incompetent or neglectful administration, flagrant or repeated disregard for laws and regulations, or a willful departure from sound fiduciary principles and practices. The volume and severity of problems are beyond management's ability or willingness to control or correct. Such conditions evidence a flagrant disregard for the interests of the beneficiaries and may pose a serious threat to the soundness of the institution. Continuous close supervisory attention is warranted and may include termination of the institutions fiduciary activities.

## UITRS Component Ratings

Each of the component rating descriptions is divided into three sections: a narrative description of the component; a list of the principal factors used to evaluate that component; and a description of each numerical rating for that component. Some of the evaluation factors are reiterated under one or more of the other components to reinforce the interrelationship among components. The listing of evaluation factors is in no particular order of importance.

### Management

This rating reflects the capability of the board and management, in their respective roles, to identify, measure, monitor, and control the risks of an institution's fiduciary activities. It also reflects their ability to ensure that the institution's fiduciary activities are conducted in a safe and sound manner, and in compliance with applicable laws and regulations. Directors should provide clear guidance regarding acceptable risk exposure levels and ensure that appropriate policies, procedures, and practices are established and followed. Senior fiduciary management is responsible for developing and implementing policies, procedures, and practices that translate the board's objectives and risk limits into prudent operating standards.

Depending on the nature and scope of an institution's fiduciary activities, management practices may need to address some or all of the following risks: ~~reputation~~, operating or transaction, strategic, compliance, legal, credit, market, liquidity, and other risks. Sound management practices are demonstrated by active oversight by the board and management; competent personnel; adequate policies, processes, and controls that consider the size and complexity of the institution's fiduciary activities; and effective risk monitoring and management information systems. This rating should reflect the board's and management's ability as it applies to all aspects of fiduciary activities in which the institution is involved.



Refer to OCC Bulletin 2007-21, “Supervision of National Trust Banks: Revised Guidance: Capital and Liquidity,” for more information regarding capital and liquidity risk management principles for trust banks.

The management rating is based on an assessment of the capability and performance of management and the board, including the following evaluation factors:

- Level and quality of oversight and support of fiduciary activities by the board and management, including committee structure and adequate documentation of committee actions.
- Ability of the board and management, in their respective roles, to plan for and respond to risks that may arise from changing business conditions or the introduction of new activities or products.
- Adequacy of, and conformance with, appropriate internal policies, practices, and controls addressing the operations and risks of significant fiduciary activities.
- Accuracy, timeliness, and effectiveness of management information and risk monitoring systems appropriate for the institution’s size, complexity, and fiduciary risk profile.
- Overall level of compliance with laws, regulations, and sound fiduciary principles.
- Responsiveness to recommendations from auditors and regulatory authorities.
- Strategic planning for fiduciary products and services.
- Level of experience and competence of fiduciary management and staff, including issues relating to turnover and succession planning.
- Adequacy of insurance coverage.
- Availability of competent legal counsel.
- Extent and nature of pending litigation associated with fiduciary activities, and its potential impact on earnings, capital ~~and the institution’s reputation~~.
- Process for identifying and responding to fiduciary customer complaints.

Table 20 lists the UITRS management component rating definitions.

**Table 20: UITRS Management Ratings**

<b>1</b>	A rating of 1 indicates strong performance by management and the board and strong risk management practices relative to the size, complexity, and risk profile of the institution’s fiduciary activities. All significant risks are consistently and effectively identified, measured, monitored, and controlled. Management and the board are proactive and have demonstrated the ability to promptly and successfully address existing and potential problems and risks.
<b>2</b>	A rating of 2 indicates satisfactory management and board performance and risk management practices relative to the size, complexity, and risk profile of the institution’s fiduciary activities. Moderate weaknesses may exist, but are not material to the sound administration of fiduciary activities, and are being addressed. In general, significant risks and problems are effectively identified, measured, monitored, and controlled.
<b>3</b>	A rating of 3 indicates management and board performance that needs improvement or risk management practices that are less than satisfactory given the nature of the institution’s fiduciary activities. The capabilities of management or the board may be insufficient for the size, complexity, and risk profile of the institution’s fiduciary activities. Problems and significant risks may be inadequately identified, measured, monitored, or controlled.

**Table 20: UITRS Management Ratings (continued)**

<b>4</b>	A rating of 4 indicates deficient management and board performance or risk management practices that are inadequate considering the size, complexity, and risk profile of the institution's fiduciary activities. The level of problems and risk exposure is excessive. Problems and significant risks are inadequately identified, measured, monitored, or controlled and require immediate action by the board and management to protect the assets of account beneficiaries and to prevent erosion of public confidence in the institution. Replacing or strengthening management or the board may be necessary.
<b>5</b>	A rating of 5 indicates critically deficient management and board performance or risk management practices. Management and the board have not demonstrated the ability to correct problems and implement appropriate risk management practices. Problems and significant risks are inadequately identified, measured, monitored, or controlled and now threaten the continued viability of the institution or its administration of fiduciary activities, and pose a threat to the safety of the assets of account beneficiaries. Replacing or strengthening management or the board is necessary.

## Operations, Internal Controls, and Auditing

This rating reflects the adequacy of the institution's fiduciary operating systems and internal controls in relation to the volume and character of business conducted. Audit coverage should assess the integrity of the financial records, the sufficiency of internal controls, and the adequacy of the compliance process.

The institution's fiduciary operating systems, internal controls, and audit function subject it primarily to transaction and compliance risk. Other risks, including ~~reputation~~, strategic, and financial risk, may also be present. The ability of management to identify, measure, monitor, and control these risks is reflected in this rating.

The operations, internal controls, and auditing rating is based on an assessment of the following evaluation factors:

- Operations and internal controls, including the adequacy of the following:
  - Staff, facilities, and operating systems.
  - Records, accounting, and data processing systems (including controls over systems access and such accounting procedures as aging, investigation, and disposition of items in suspense accounts).
  - Trading functions and securities lending activities.
  - Vault controls and securities movement.
  - The segregation of duties.
  - Controls over disbursements (checks or electronic) and unissued securities.
  - Controls over income processing activities.
  - Reconciliation processes (depository, cash, vault, sub-custodians, suspense accounts, etc.).
  - Disaster or business recovery programs.
  - Hold-mail procedures and controls over returned mail.
  - The investigation and proper escheatment of funds in dormant accounts.

- Auditing, including the following:
  - The independence, frequency, quality, and scope of the internal and external fiduciary audit function relative to the volume, character, and risk profile of the institution’s fiduciary activities.
  - The volume or severity of internal control and audit exceptions and the extent to which these issues are tracked and resolved.
  - The experience and competence of the audit staff.

Table 21 lists the UITRS operations, internal controls, and auditing component rating definitions.

**Table 21: UITRS Operations, Internal Controls, and Auditing Ratings**

<b>1</b>	A rating of 1 indicates that operations, internal controls, and auditing are strong in relation to the volume and character of the institution’s fiduciary activities. All significant risks are consistently and effectively identified, measured, monitored, and controlled.
<b>2</b>	A rating of 2 indicates that operations, internal controls, and auditing are satisfactory in relation to the volume and character of the institution’s fiduciary activities. Moderate weaknesses may exist, but are not material. Significant risks, in general, are effectively identified, measured, monitored, and controlled.
<b>3</b>	A rating of 3 indicates that operations, internal controls, or auditing need improvement in relation to the volume and character of the institution’s fiduciary activities. One or more of these areas are less than satisfactory. Problems and significant risks may be inadequately identified, measured, monitored, or controlled.
<b>4</b>	A rating of 4 indicates deficient operations, internal controls, or audits. One or more of these areas are inadequate or the level of problems and risk exposure is excessive in relation to the volume and character of the institution’s fiduciary activities. Problems and significant risks are inadequately identified, measured, monitored, or controlled and require immediate action. Institutions with this level of deficiencies may make little provision for audits, or may evidence weak or potentially dangerous operating practices in combination with infrequent or inadequate audits.
<b>5</b>	A rating of 5 indicates critically deficient operations, internal controls, or audits. Operating practices, with or without audits, pose a serious threat to the safety of assets of fiduciary accounts. Problems and significant risks are inadequately identified, measured, monitored, or controlled and now threaten the ability of the institution to continue engaging in fiduciary activities.

## Earnings

This rating reflects the profitability of an institution’s fiduciary activities and its effect on the financial condition of the institution. The use and adequacy of budgets and earnings projections by functions, product lines, and clients are reviewed and evaluated. Risk exposure that may lead to negative earnings is also evaluated.

An evaluation of earnings is required for all institutions with fiduciary activities. An assignment of an earnings rating, however, is required only for institutions that, at the time of the examination, have total trust assets of more than \$100 million or are nondeposit trust companies (those institutions that would be required to file Schedule E of FFIEC 001). The OCC does not require an earnings rating to be assigned at institutions when an earnings component rating is not required under the UITRS. For these institutions, an evaluation of fiduciary earnings should be forwarded to the bank EIC for consideration in assigning the UFIRS earnings component rating.

If the UITRS does not require that a particular institution receive an earnings rating, the federal supervisory agency has the option to assign an earnings rating using an alternate set of ratings. A rating will be assigned in accordance with implementing guidelines adopted by the supervisory agency. The definitions for the alternate ratings are included in the revised UITRS and may be found in the section immediately following the definitions for the required ratings.

The evaluation of earnings is based on an assessment of the following factors:

- Profitability of fiduciary activities in relation to the size and scope of those activities and to the overall business of the institution.
- Overall importance to the institution of offering fiduciary services to its customers and local community.
- Effectiveness of the institution's procedures for monitoring fiduciary activity income and expense relative to the size and scope of these activities and their relative importance to the institution, including the frequency and scope of profitability reviews and planning by the institution's board or a committee thereof.

For institutions that must receive an earnings rating, additional factors include the following:

- Level and consistency of profitability, or the lack thereof, generated by the institution's fiduciary activities in relation to the volume and character of the institution's business.
- Dependence on non-recurring fees and commissions, such as fees for court accounts.
- Effect of charge-offs or compromise actions.
- Unusual features regarding the composition of business and fee schedules.
- Unusual accounting practices, such as
  - unusual methods of allocating direct and indirect expenses and overhead, or
  - unusual methods of allocating fiduciary income and expense where two or more fiduciary institutions within the same holding company family share fiduciary services or processing functions.
- Extent of management's use of budgets, projections, and other cost analysis procedures.
- Methods used for directors' approval of financial budgets or projections.
- Management's attitude toward growth and new business development.
- New business development efforts, including types of business solicited, market potential, advertising, competition, relationships with local organizations, and an evaluation by management of risk potential inherent in new business areas.

Table 22 lists the UITRS earnings component rating definitions.

**Table 22: UITRS Earnings Ratings**

<b>1</b>	A rating of 1 indicates strong earnings. The institution consistently earns a rate of return on its fiduciary activities that is commensurate with the risk of those activities. This rating would normally be supported by a history of consistent profitability over time and a judgment that future earnings prospects are favorable. In addition, management techniques for evaluating and monitoring earnings performance are fully adequate, and there is appropriate oversight by the institution's board or a committee thereof. Management makes effective use of budgets and cost analysis procedures. Methods used for reporting earnings information to the board, or a committee thereof, are comprehensive.
<b>2</b>	A rating of 2 indicates satisfactory earnings. Although the earnings record may exhibit some weaknesses, earnings performance does not pose a risk to the overall institution or to its ability to meet its fiduciary obligations. Generally, fiduciary earnings meet management targets and appear to be at least sustainable. Management processes for evaluating and monitoring earnings are generally sufficient in relationship to the size and risk of fiduciary activities that exist, and any deficiencies can be addressed in the normal course of business. A rating of 2 may also be assigned to institutions with a history of profitable operations if there are indications that management is engaging in activities with which it is not familiar, or where there may be inordinately high levels of risk present that have not been adequately evaluated. Alternatively, an institution with otherwise strong earnings performance may also be assigned a 2 rating if there are significant deficiencies in its methods used to monitor and evaluate earnings.
<b>3</b>	A rating of 3 indicates less than satisfactory earnings. Earnings are not commensurate with the risk associated with the fiduciary activities undertaken. Earnings may be erratic or exhibit downward trends, and future prospects are unfavorable. This rating may also be assigned if management processes for evaluating and monitoring earnings exhibit serious deficiencies, provided the deficiencies identified do not pose an immediate danger to either the overall financial condition of the institution or its ability to meet its fiduciary obligations.
<b>4</b>	A rating of 4 indicates earnings that are seriously deficient. Fiduciary activities have a significant adverse effect on the overall income of the institution and its ability to generate adequate capital to support the continued operation of its fiduciary activities. The institution is characterized by fiduciary earnings performance that is poor historically, or faces the prospect of significant losses in the future. Management processes for monitoring and evaluating earnings may be poor. The board has not adopted appropriate measures to address significant deficiencies.
<b>5</b>	A rating of 5 indicates critically deficient earnings. In general, an institution with this rating is experiencing losses from fiduciary activities that have a significant negative impact on the overall institution, representing a distinct threat to its viability through the erosion of its capital. The board has not implemented effective actions to address the situation.

## Alternate Rating of Earnings

Alternate ratings are assigned based on the level of implementation of four minimum standards by the board and management. These standards are as follows:

- Standard 1: The institution has reasonable methods for measuring income and expense commensurate with the volume and nature of the fiduciary services offered.
- Standard 2: The level of profitability is reported to the board, or a committee thereof, at least annually.
- Standard 3: The board periodically determines that the continued offering of fiduciary services provides an essential service to the institution's customers or to the local community.
- Standard 4: The board, or a committee thereof, reviews the justification for the institution to continue to offer fiduciary services even if the institution does not earn sufficient income to cover the expenses of providing those services.

Table 23 lists the UITRS alternate earnings component rating definitions.

**Table 23: UITRS Alternate Earnings Ratings**

<b>1</b>	A rating of 1 may be assigned where an institution has implemented all four minimum standards. If fiduciary earnings are lacking, management views this as a cost of doing business as a full-service institution and believes that the negative effects of not offering fiduciary services are more significant than the expense of administrating those services.
<b>2</b>	A rating of 2 may be assigned to an institution that has implemented at least three of the four standards. This rating may be assigned if the institution is not generating positive earnings or where formal earnings information may not be available.
<b>3</b>	A rating of 3 may be assigned to an institution that has implemented at least two of the four standards. While management may have attempted to identify and quantify other revenue to be earned by offering fiduciary services, it has decided that these services should be offered as a service to customers, even if they cannot be operated profitably.
<b>4</b>	A rating of 4 may be assigned to an institution that has implemented only one of the four standards. Management has undertaken little or no effort to identify or quantify the collateral advantages, if any, to the institution from offering fiduciary services.
<b>5</b>	A rating of 5 may be assigned if the institution has implemented none of the standards.

## Compliance

This rating reflects an institution's overall compliance with applicable laws, regulations, accepted standards of fiduciary conduct, governing account instruments, duties associated with account administration, and internally established policies and procedures. This component specifically incorporates an assessment of a fiduciary's duty of undivided loyalty to the customer and compliance with applicable laws, regulations, and accepted standards of fiduciary conduct related to self-dealing and other conflicts of interest.

The compliance component includes reviewing and evaluating the adequacy and soundness of adopted policies, procedures, and practices generally, and as they relate to specific transactions and accounts. It also includes reviewing policies, procedures, and practices to evaluate how committed management and the board are to refraining from self-dealing, minimizing potential conflicts of interest, and resolving actual conflict situations in favor of the fiduciary account beneficiaries.

Risks associated with account administration are potentially unlimited because each account is a separate contractual relationship that contains specific obligations. Risks associated with account administration include failure to comply with applicable laws, regulations, or terms of the governing instrument; inadequate account administration practices; and inexperienced management or inadequately trained staff. Risks associated with a fiduciary's duty of undivided loyalty generally stem from engaging in self-dealing or other conflict of interest transactions. An institution may be exposed to compliance, strategic, and financial, ~~and reputation~~ risk related to account administration and conflicts of interest activities. The ability of management to identify, measure, monitor, and control these risks is reflected in this rating. Policies, procedures, and practices pertaining to account administration and conflicts of interest are evaluated in light of the size and character of an institution's fiduciary business.

The compliance rating is based on an assessment of the following evaluation factors:

- Compliance with applicable federal and state statutes and regulations, including, but not limited to, federal and state fiduciary laws, the Employee Retirement Income Security Act, federal and state securities laws, state investment standards, state principal and income acts, and state probate codes.
- Compliance with the terms of governing instruments.
- Adequacy of overall policies, practices, and procedures governing compliance, considering the size, complexity, and risk profile of the institution’s fiduciary activities.
- Adequacy of policies and procedures addressing account administration.
- Adequacy of policies and procedures addressing conflicts of interest, including those designed to prevent the improper use of “material inside information.”
- Effectiveness of systems and controls in place to identify actual and potential conflicts of interest.
- Adequacy of securities trading policies and practices relating to the allocation of brokerage business, the payment of services with “soft dollars,” and the combining, crossing, and timing of trades.
- Extent and permissibility of transactions with related parties, including, but not limited to, the volume of related commercial and fiduciary relationships and holdings of corporations in which directors, officers, or employees of the institution may be interested.
- Decision-making process used to accept, review, and terminate accounts.
- Decision-making process related to account administration duties, including cash balances, overdrafts, and discretionary distributions.

Table 24 lists the UITRS compliance component rating definitions.

**Table 24: UITRS Compliance Ratings**

<b>1</b>	A rating of 1 indicates strong compliance policies, procedures, and practices. Policies and procedures covering conflicts of interest and account administration are appropriate in relation to the size and complexity of the institution’s fiduciary activities. Accounts are administered in accordance with governing instruments, applicable laws and regulations, sound fiduciary principles, and internal policies and procedures. Any violations are isolated, technical in nature, and easily correctable. All significant risks are consistently and effectively identified, measured, monitored, and controlled.
<b>2</b>	A rating of 2 indicates fundamentally sound compliance policies, procedures, and practices in relation to the size and complexity of the institution’s fiduciary activities. Account administration may be flawed by moderate weaknesses in policies, procedures, or practices. Management’s practices indicate a determination to minimize the instances of conflicts of interest. Fiduciary activities are conducted in substantial compliance with laws and regulations, and any violations are generally technical in nature. Management corrects violations in a timely manner and without loss to fiduciary accounts. Significant risks are effectively identified, measured, monitored, and controlled.
<b>3</b>	A rating of 3 indicates compliance practices that are less than satisfactory in relation to the size and complexity of the institution’s fiduciary activities. Policies, procedures, and controls have not proven effective and require strengthening. Fiduciary activities may be in substantial noncompliance with laws, regulations, or governing instruments, but losses are no worse than minimal. While management may have the ability to achieve compliance, the number of violations that exist, or the failure to correct prior violations, is an indication that management has not devoted sufficient time and attention to its compliance responsibilities. Risk management practices generally need improvement.

**Table 24: UITRS Compliance Ratings (continued)**

4	A rating of 4 indicates an institution with deficient compliance practices in relation to the size and complexity of its fiduciary activities. Account administration is notably deficient. The institution makes little or no effort to minimize potential conflicts or refrain from self-dealing, and is confronted with a considerable number of potential or actual conflicts. Numerous substantive and technical violations of laws and regulations exist, and many may remain uncorrected from previous examinations. Management has not exerted sufficient effort to effect compliance and may lack the ability to effectively administer fiduciary activities. The level of compliance problems is significant and, if left unchecked, may subject the institution to monetary losses or reputation risk. Risks are inadequately identified, measured, monitored, and controlled.
5	A rating of 5 indicates critically deficient compliance practices. Account administration is critically deficient or incompetent, and there is a flagrant disregard for the terms of the governing instruments and interests of account beneficiaries. The institution frequently engages in transactions that compromise its fundamental duty of undivided loyalty to account beneficiaries. There are flagrant or repeated violations of laws and regulations and significant departures from sound fiduciary principles. Management is unwilling or unable to operate within the scope of laws and regulations or within the terms of governing instruments, and efforts to obtain voluntary compliance have been unsuccessful. The severity of noncompliance presents an imminent monetary threat to account beneficiaries and creates significant legal and financial exposure to the institution. Problems and significant risks are inadequately identified, measured, monitored, or controlled and now threaten the ability of management to continue engaging in fiduciary activities.

## Asset Management

This rating reflects the risks associated with managing the assets (including cash) of others. The OCC waives the asset management component rating only if the institution's fiduciary activities do not include managing or advising fiduciary account assets. Prudent portfolio management is based on an assessment of the needs and objectives of each account or portfolio. An evaluation of asset management should consider the adequacy of processes related to the investment of all discretionary accounts and portfolios, including collective investment funds, proprietary mutual funds, and investment advisory arrangements.

The institution's asset management activities subject it to ~~reputation~~, compliance, and strategic risks. In addition, each individual account or portfolio managed by the institution is subject to financial risks, such as market, credit, liquidity, and interest rate risk, as well as transaction and compliance risk. The ability of management to identify, measure, monitor, and control these risks is reflected in this rating.

The asset management rating is based on an assessment of the following evaluation factors:

- The adequacy of overall policies, practices, and procedures governing asset management, considering the size, complexity, and risk profile of the institution's fiduciary activities.
- Decision-making processes used for selection, retention, and preservation of discretionary assets including adequacy of documentation, committee review, and approval, and a system to review and approve exceptions.
- The use of quantitative tools to measure the various financial risks in investment accounts and portfolios.
- The existence of policies and procedures addressing the use of derivatives or other complex investment products.



- The adequacy of procedures related to the purchase or retention of miscellaneous assets including real estate, notes, closely held companies, limited partnerships, mineral interests, insurance, and other unique assets.
- The extent and adequacy of periodic reviews of investment performance, taking into consideration the needs and objectives of each account or portfolio.
- The monitoring of changes in the composition of fiduciary assets for trends and related risk exposure.
- The quality of investment research used in the decision-making process and documentation of the research.
- The due diligence process for evaluating investment advice received from vendors or brokers (including approved or focus lists of securities).
- The due diligence process for reviewing and approving brokers or counterparties used by the institution.

This rating may not be applicable for some institutions because their operations do not include activities involving the management of any discretionary assets. Functions of this type would include, but not necessarily be limited to, directed agency relationships, securities clearing, non-fiduciary custody relationships, transfer agent activities, and registrar activities. In institutions of this type, the examiner may omit the rating for asset management in accordance with the examining agency's implementing guidelines. This component should, however, be assigned when the institution provides investment advice, even though it does not have discretion over the account assets. An example of this type of activity would be where the institution selects or recommends the menu of mutual funds offered to participant-directed 401(k) plans. Table 26 lists the UITRS asset management component rating definitions.

**Table 25: UITRS Asset Management Ratings**

<b>1</b>	A rating of 1 indicates strong asset management practices. Identified weaknesses are minor in nature. Risk exposure is modest in relation to management's abilities and the size and complexity of the assets managed.
<b>2</b>	A rating of 2 indicates satisfactory asset management practices. Moderate weaknesses are present and are well within management's ability and willingness to correct. Risk exposure is commensurate with management's abilities and the size and complexity of the assets managed. Supervisory response is limited.
<b>3</b>	A rating of 3 indicates that asset management practices are less than satisfactory in relation to the size and complexity of the assets managed. Weaknesses may range from moderate to severe; however, they are not of such significance as to generally pose a threat to the interests of account beneficiaries. Asset management and risk management practices generally need to be improved. An elevated level of supervision is normally required.
<b>4</b>	A rating of 4 indicates deficient asset management practices in relation to the size and complexity of the assets managed. The levels of risk are significant and inadequately controlled. The problems pose a threat to account beneficiaries generally and, if left unchecked, may subject the institution to losses and could undermine the reputation of the institution.
<b>5</b>	A rating of 5 represents critically deficient asset management practices and a flagrant disregard of fiduciary duties. These practices jeopardize the interests of account beneficiaries, subject the institution to losses, and may pose a threat to the soundness of the institution.

# Uniform Interagency Consumer Compliance Rating System

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At the FFIEC’s recommendation, the federal banking regulatory agencies adopted the CC Rating System.<sup>86</sup> The rating system is meant to reflect, in a comprehensive and uniform fashion, the nature and extent of an institution’s compliance with consumer protection and civil rights statutes and regulations. The system helps identify institutions displaying compliance weaknesses requiring special supervisory attention.

The rating system provides a general framework for evaluating and integrating significant compliance factors to assign a consumer compliance rating to each institution. The rating system does not consider an institution’s record of lending performance under the CRA or its compliance with the applicable provisions of the implementing regulations. Compliance with the CRA is rated separately.

## Overview

This CC Rating System provides a general framework for assessing risks during the supervisory process using certain compliance factors and assigning an overall consumer compliance rating to each federally regulated financial institution. The primary purpose of the CC Rating System is to ensure that regulated financial institutions<sup>87</sup> are evaluated in a comprehensive and consistent manner, and that supervisory resources are appropriately focused on areas exhibiting risk of consumer harm and on institutions that warrant elevated supervisory attention. Ratings are given on a scale of 1 through 5 in increasing order of supervisory concern. 1 represents the highest rating and the lowest level of supervisory concern, while 5 represents the lowest, most critically deficient level of performance and the highest degree of supervisory concern.

The CC Rating System is composed of guidance and definitions. The guidance provides examiners with direction on how to use the definitions when assigning a consumer compliance rating to an institution. The definitions consist of qualitative descriptions for each rating category and include CMS elements reflecting risk control processes designed to manage consumer compliance risk and considerations regarding violations of laws, consumer harm, and the size, complexity, and risk profile of an institution. The consumer compliance rating reflects the effectiveness of an institution’s CMS to ensure compliance with consumer protection laws and regulations and reduce the risk of harm to consumers.

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<sup>86</sup> The FFIEC issued the revised CC Rating System in November 2016 to reflect regulatory, supervisory, technological, and market changes since the system was established in 1980. The revisions are designed to better reflect current consumer compliance supervisory approaches. The revised CC Rating System was effective for all OCC examinations that started on or after March 31, 2017. Refer to 81 Fed. Reg. 79,473 (November 14, 2016).

<sup>87</sup> The term “financial institution” means a commercial bank, a savings bank, a trust company, a savings association, a building and loan association, a homestead association, a cooperative bank, or a credit union. Refer to 12 USC 3302(3).

## Categories of the Consumer Compliance Rating System

The CC Rating System is organized under three broad categories:

- Board and Management Oversight
- Compliance Program
- Violations of Law and Consumer Harm

The Consumer Compliance Rating Definitions list the assessment factors considered within each category, along with narrative descriptions of performance. The first two categories, Board and Management Oversight and Compliance Program, are used to assess a financial institution's CMS. Examiners should evaluate the assessment factors within these two categories commensurate with the institution's size, complexity, and risk profile. All institutions, regardless of size, should maintain an effective CMS. The sophistication and formality of the CMS typically increases commensurate with the size, complexity, and risk profile of the entity.

Additionally, compliance expectations contained within the narrative descriptions of these two categories extend to third-party relationships into which the financial institution has entered. There can be certain benefits to financial institutions engaging in relationships with third parties, including gaining operational efficiencies or an ability to deliver additional products and services, but such arrangements also may expose financial institutions to risks if not managed effectively. The prudential agencies, the CFPB, and some states have issued guidance describing expectations regarding oversight of third-party relationships. While an institution's management may make the business decision to outsource some or all of the operational aspects of a product or service, the institution cannot outsource the responsibility for complying with laws and regulations or managing the risks associated with third-party relationships.<sup>88</sup> (Updated in version 1.1)

As noted in the Consumer Compliance Rating Definitions, examiners should evaluate activities conducted through third-party relationships as though the activities were performed by the institution itself. Examiners should review a financial institution's management of third-party relationships and servicers as part of its overall compliance program.

The third category, Violations of Law and Consumer Harm, includes assessment factors that evaluate the dimensions of any identified violation or consumer harm. Examiners should weigh each of these four factors—root cause, severity, duration, and pervasiveness—in evaluating relevant violations of law and any resulting consumer harm.

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<sup>88</sup> Refer to OCC Bulletin 2013-29, "Third-Party Relationships: Risk Management Guidance"; OCC Bulletin 2017-21, "Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29"; and OCC Bulletin 2017-7, "Third-Party Relationships: Supplemental Examination Procedures."

## Board and Management Oversight—Assessment Factors

Under Board and Management Oversight, the examiner should assess the financial institution’s board and management, as appropriate for their respective roles and responsibilities, based on the following assessment factors:

- Oversight of and commitment to the institution’s CMS.
- Effectiveness of the institution’s change management processes, including responding in a timely manner and satisfactorily to any variety of change, internal or external, to the institution.
- Comprehension, identification, and management of risks arising from the institution’s products, services, or activities.
- Self-identification of consumer compliance issues and corrective action undertaken as such issues are identified.

Table 26 lists the Board and Management Oversight assessment factors.

**Table 26: Board and Management Oversight Assessment Factors**

<b>Board and Management Oversight</b>					
Board and management oversight factors should be evaluated commensurate with the institution’s size, complexity, and risk profile. Compliance expectations below extend to third-party relationships.					
<b>Assessment factors</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Oversight and commitment</b>	Board and management demonstrate strong commitment to and oversight of the financial institution’s CMS.	Board and management provide satisfactory oversight of the financial institution’s CMS.	Board and management oversight of the financial institution’s CMS is deficient.	Board and management oversight, resources, and attention to the CMS are seriously deficient.	Board and management oversight, resources, and attention to the CMS are critically deficient.
	Substantial compliance resources are provided, including systems, capital, and human resources commensurate with the financial institution’s size, complexity, and risk profile. Staff is knowledgeable, empowered, and held accountable for compliance with consumer laws and regulations.	Compliance resources are adequate and staff is generally able to ensure the financial institution is in compliance with consumer laws and regulations.	Compliance resources and staff are inadequate to ensure the financial institution is in compliance with consumer laws and regulations.	Compliance resources and staff are seriously deficient and are ineffective at ensuring the financial institution’s compliance with consumer laws and regulations.	Compliance resources are critically deficient in supporting the financial institution’s compliance with consumer laws and regulations, and management and staff are unwilling or incapable of operating within the scope of consumer protection laws and regulations.

<b>Board and Management Oversight</b>					
Board and management oversight factors should be evaluated commensurate with the institution's size, complexity, and risk profile. Compliance expectations below extend to third-party relationships.					
<b>Assessment factors</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	Management conducts comprehensive and ongoing due diligence and oversight of third parties consistent with agency expectations to ensure that the financial institution complies with consumer protection laws, and exercises strong oversight of third parties' policies, procedures, internal controls, and training to ensure consistent oversight of compliance responsibilities.	Management conducts adequate and ongoing due diligence and oversight of third parties to ensure that the financial institution complies with consumer protection laws, and adequately oversees third parties' policies, procedures, internal controls, and training to ensure appropriate oversight of compliance responsibilities.	Management does not adequately conduct due diligence and oversight of third parties to ensure that the financial institution complies with consumer protection laws, nor does it adequately oversee third parties' policies, procedures, internal controls, and training to ensure appropriate oversight of compliance responsibilities.	Management oversight and due diligence over third-party performance, as well as management's ability to adequately identify, measure, monitor, or manage compliance risks, is seriously deficient.	Management oversight and due diligence of third-party performance is critically deficient.
<b>Change management</b>	Management anticipates and responds promptly to changes in applicable laws and regulations, market conditions, and products and services offered by evaluating the change and implementing responses across impacted lines of business.	Management responds timely and adequately to changes in applicable laws and regulations, market conditions, and products and services offered by evaluating the change and implementing responses across impacted lines of business.	Management does not respond adequately or timely in adjusting to changes in applicable laws and regulations, market conditions, and products and services offered.	Management's response to changes in applicable laws and regulations, market conditions, or products and services offered is seriously deficient.	Management fails to monitor and respond to changes in applicable laws and regulations, market conditions, or products and services offered.
	Management conducts due diligence in advance of product changes, considers the entire life cycle of a product or service in implementing change, and reviews the change after implementation	Management evaluates product changes before and after implementing the change.			

<b>Board and Management Oversight</b>					
Board and management oversight factors should be evaluated commensurate with the institution's size, complexity, and risk profile. Compliance expectations below extend to third-party relationships.					
<b>Assessment factors</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	to determine that actions taken have achieved planned results.				
<b>Comprehension, identification, and management of risk</b>	Management has a solid comprehension of and effectively identifies compliance risks, including emerging risks, in the financial institution's products, services, and other activities.	Management comprehends and adequately identifies compliance risks, including emerging risks, in the financial institution's products, services, and other activities.	Management has an inadequate comprehension of and ability to identify compliance risks, including emerging risks, in the financial institution's products, services, and other activities.	Management exhibits a seriously deficient comprehension of and ability to identify compliance risks, including emerging risks, in the financial institution.	Management does not comprehend or identify compliance risks, including emerging risks, in the financial institution.
	Management actively engages in managing those risks, including through comprehensive self-assessments.	Management adequately manages those risks, including through self-assessments.			
<b>Corrective action and self-identification</b>	Management proactively identifies issues and promptly responds to compliance risk management deficiencies and any violations of laws or regulations, including remediation.	Management adequately responds to and corrects deficiencies or violations, including adequate remediation, in the normal course of business.	Management does not adequately respond to compliance deficiencies and violations including those related to remediation.	Management response to deficiencies, violations, and examination findings is seriously deficient.	Management is incapable, unwilling, or fails to respond to deficiencies, violations, or examination findings.

## Compliance Program—Assessment Factors

Under Compliance Program, the examiner should assess other elements of an effective CMS, based on the following assessment factors:

- Whether the institution's policies and procedures are appropriate to the risk in the products, services, and activities of the institution.
- The degree to which compliance training is current and tailored to risk and staff responsibilities.
- The sufficiency of the monitoring and, if applicable, audit function to encompass compliance risks throughout the institution.
- Responsiveness and effectiveness of the consumer complaint resolution process.

Table 27 lists the Compliance Program assessment factors.

**Table 27: Compliance Program Assessment Factors**

<b>Compliance Program</b>					
Compliance Program factors should be evaluated commensurate with the institution's size, complexity, and risk profile. Compliance expectations in this table extend to third-party relationships.					
<b>Assessment factors</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Policies and procedures</b>	Compliance policies and procedures and third-party relationship management programs are strong and comprehensive and provide standards to effectively manage compliance risk in the products, services, and activities of the financial institution.	Compliance policies and procedures and third-party relationship management programs are adequate to manage the compliance risk in the products, services, and activities of the financial institution.	Compliance policies and procedures and third-party relationship management programs are inadequate at managing the compliance risk in the products, services, and activities of the financial institution.	Compliance policies and procedures and third-party relationship management programs are seriously deficient at managing compliance risk in the products, services, and activities of the financial institution.	Compliance policies and procedures and third-party relationship management programs are critically absent.
<b>Training</b>	Compliance training is comprehensive, timely, and specifically tailored to the particular responsibilities of the staff receiving it, including those responsible for product development, marketing, and customer service.	Compliance training outlining staff responsibilities is adequate and provided in a timely manner to appropriate staff.	Compliance training is not adequately comprehensive, timely, updated, or appropriately tailored to the particular responsibilities of the staff.	Compliance training is seriously deficient in its comprehensiveness, timeliness, or relevance to staff with compliance responsibilities, or has numerous major inaccuracies.	Compliance training is critically absent.
	The compliance training program is updated proactively before the introduction of new products or new consumer protection laws and regulations to ensure that all staff are aware of compliance responsibilities before rollout.	The compliance training program is updated to encompass new products and to comply with changes to consumer protection laws and regulations.			

<b>Compliance Program</b>					
Compliance Program factors should be evaluated commensurate with the institution's size, complexity, and risk profile. Compliance expectations in this table extend to third-party relationships.					
<b>Assessment factors</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Monitoring or audit</b>	Compliance monitoring practices, management information systems, reporting, compliance audit, and internal control systems are comprehensive, timely, and successful at identifying and measuring material compliance risk management throughout the financial institution.	Compliance monitoring practices, management information systems, reporting, compliance audit, and internal control systems adequately address compliance risks throughout the financial institution.	Compliance monitoring practices, management information systems, reporting, compliance audit, and internal control systems do not adequately address risks involving products, services, or other activities, including timing and scope.	Compliance monitoring practices, management information systems, reporting, compliance audit, and internal controls are seriously deficient in addressing risks involving products, services, or other activities.	Compliance monitoring practices, management information systems, reporting, compliance audit, or internal controls are critically absent.
	Programs are monitored proactively to identify procedural or training weaknesses to preclude regulatory violations. Program modifications are made expeditiously to minimize compliance risk.				
<b>Consumer complaint response</b>	Processes and procedures for addressing consumer complaints are strong. Consumer complaint investigations and responses are prompt and thorough.	Processes and procedures for addressing consumer complaints are adequate. Consumer complaint investigations and responses are generally prompt and thorough.	Processes and procedures for addressing consumer complaints are inadequate. Consumer complaint investigations and responses are not thorough or timely.	Processes and procedures for addressing consumer complaints and consumer complaint investigations are seriously deficient.	Processes and procedures for addressing consumer complaints are critically absent. Meaningful investigations and responses are absent.
	Management monitors consumer complaints to identify risks of potential consumer harm, program deficiencies, and customer service issues and takes appropriate action.	Management adequately monitors consumer complaints and responds to issues identified.	Management does not adequately monitor consumer complaints.	Management monitoring of consumer complaints is seriously deficient.	Management exhibits a disregard for complaints or preventing consumer harm.



## Violations of Law and Consumer Harm—Assessment Factors

Under Violations of Law and Consumer Harm, the examiner should analyze the following assessment factors:

- Root cause, or causes, of any violations of law identified during the examination.
- Severity of any consumer harm resulting from violations.
- Duration of time over which the violations occurred.
- Pervasiveness of the violations.

As a result of a violation of law, consumer harm may occur. While many instances of consumer harm can be quantified as a dollar amount associated with financial loss, such as charging higher fees for a product than was initially disclosed, consumer harm may also result from a denial of an opportunity. For example, a consumer could be harmed when a financial institution denies the consumer credit or discourages an application in violation of the Equal Credit Opportunity Act,<sup>89</sup> whether or not there is resulting financial harm.

This category of the Consumer Compliance Rating Definitions defines four factors by which examiners can assess violations of law and consumer harm.

### Root Cause

The root cause assessment factor analyzes the degree to which weaknesses in the CMS gave rise to the violations. In many instances, the root cause of a violation is tied to a weakness in one or more elements of the CMS. Violations that result from critical deficiencies in the CMS evidence a critical absence of management oversight and are of the highest supervisory concern.

### Severity

The severity assessment factor weighs the type of consumer harm, if any, that resulted from violations of law. More severe harm results in a higher level of supervisory concern under this factor. For example, some consumer protection violations may cause significant financial harm to a consumer, while other violations may cause negligible harm, based on the specific facts involved.

### Duration

The duration assessment factor considers the length of time over which the violations occurred. Violations that persist over an extended period of time raise greater supervisory concerns than violations that occur for only a brief period of time. When violations are brought to the attention of an institution's management and management allows those violations to remain unaddressed, such violations are of the highest supervisory concern.

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<sup>89</sup> Refer to 15 USC 1691 et seq.

## Pervasiveness

The pervasiveness assessment factor evaluates the extent of the violation(s) and resulting consumer harm, if any. Violations that affect a large number of consumers raise greater supervisory concern than violations that impact a limited number of consumers. If violations become so pervasive that they are considered to be widespread or present in multiple products or services, the institution's performance under this factor is of the highest supervisory concern.

Strong compliance programs are proactive. They promote consumer protection by preventing, self-identifying, and addressing compliance issues in a proactive manner. Accordingly, the CC Rating System provides incentives for such practices through the definitions associated with a 1 rating.

The agencies believe that self-identification and prompt correction of violations of law reflect strengths in an institution's CMS. A robust CMS appropriate for the size, complexity, and risk profile of an institution's business often prevents violations or facilitates early detection of potential violations. This early detection can limit the size and scope of consumer harm. Moreover, self-identification and prompt correction of serious violations represent concrete evidence of an institution's commitment to responsibly address underlying risks. In addition, appropriate corrective action, including both correction of programmatic weaknesses and full redress for injured parties, limits consumer harm and prevents violations from recurring in the future. Thus, the CC Rating System recognizes institutions that consistently adopt these strategies as reflected in the Consumer Compliance Rating Definitions. Table 28 lists the assessment factors for violations of law and consumer harm.

**Table 28: Violations of Law and Consumer Harm Assessment Factors**

<b>Violations of Law and Consumer Harm</b>					
<b>Assessment factors to be considered</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Root cause</b>	Violations are the result of minor weaknesses, if any, in the compliance risk management system.	Violations are the result of modest weaknesses in the compliance risk management system.	Violations are the result of material weaknesses in the compliance risk management system.	Violations are the result of serious deficiencies in the compliance risk management system.	Violations are the result of critical deficiencies in the compliance risk management system.
<b>Severity</b>	The type of consumer harm, if any, resulting from the violations would have a minimal impact on consumers.	The type of consumer harm resulting from the violations would have a limited impact on consumers.	The type of consumer harm resulting from the violations would have a considerable impact on consumers.	The type of consumer harm resulting from the violations would have a serious impact on consumers.	

<b>Violations of Law and Consumer Harm</b>					
<b>Assessment factors to be considered</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Duration</b>	The violations and resulting consumer harm, if any, occurred over a brief period of time.	The violations and resulting consumer harm, if any, occurred over a limited period of time.	The violations and resulting consumer harm, if any, occurred over an extended period of time.	The violations and resulting consumer harm, if any, have been long-standing or repeated.	
<b>Pervasiveness</b>	The violations and resulting consumer harm, if any, are isolated in number.	The violations and resulting consumer harm, if any, are limited in number.	The violations and resulting consumer harm, if any, are numerous.	The violations and resulting consumer harm, if any, are widespread or in multiple products or services.	

## Evaluating Performance Using the Consumer Compliance Rating Definitions (Consumer Compliance Component Rating)

The consumer compliance rating is derived through an evaluation of the financial institution's performance under each of the assessment factors in the CC Rating System. The consumer compliance rating reflects the effectiveness of an institution's CMS to identify and manage compliance risk in the institution's products and services and to prevent violations of law and consumer harm, as evidenced by the financial institution's performance under each of the assessment factors.

The consumer compliance rating reflects a comprehensive evaluation of the financial institution's performance under the CC Rating System by considering the categories and assessment factors in the context of the size, complexity, and risk profile of an institution. It is not based on a numeric average or any other quantitative calculation. Specific numeric ratings will not be assigned to any of the 12 assessment factors. Thus, an institution need not achieve a satisfactory assessment in all categories in order to be assigned an overall satisfactory rating. Conversely, an institution may be assigned a less than satisfactory rating even if some of its assessments were satisfactory.

The relative importance of each category or assessment factor may differ based on the size, complexity, and risk profile of an individual institution. Accordingly, one or more category or assessment factor may be more or less relevant at one financial institution as compared with another institution. While the expectations for compliance with consumer protection laws and regulations are the same across institutions of varying sizes, the methods for accomplishing an effective CMS may differ across institutions.

The evaluation of an institution's performance within the Violations of Law and Consumer Harm category of the CC Rating Definitions considers each of the four assessment factors: root cause, severity, duration, and pervasiveness. At the levels of 4 and 5 in this category, the distinctions in the definitions are focused on the root cause assessment factor rather than severity, duration, and pervasiveness. This approach is consistent with the other categories where the difference between a 4 and a 5 is driven by the institution's capacity and willingness to maintain a sound consumer compliance system.

In arriving at the final rating, the examiner must balance potentially differing conclusions about the effectiveness of the financial institution's CMS over the individual products, services, and activities of the organization. Depending on the relative materiality of a product line to the institution, an observed weakness in the management of that product line may or may not impact the conclusion about the institution's overall performance in the associated assessment factor(s). For example, serious weaknesses in the policies and procedures or audit program of the mortgage department at a mortgage lender would be of greater supervisory concern than those same gaps at an institution that makes very few mortgage loans and strictly as an accommodation. Greater weight should apply to the financial institution's management of material products with significant potential consumer compliance risk.

An institution may receive a less than satisfactory rating even when no violations were identified, based on deficiencies or weaknesses identified in the institution's CMS. For example, examiners may identify weaknesses in elements of the CMS in a new loan product. Because the presence of those weaknesses left unaddressed could result in future violations of law and consumer harm, the CMS deficiencies could impact the overall consumer compliance rating, even if no violations were identified.

Similarly, an institution may receive a 1 or 2 rating even when violations were present, if the CMS is commensurate with the risk profile and complexity of the institution. For example, when violations involve limited impact on consumers, were self-identified, and were resolved promptly, the evaluation may result in a 1 or 2 rating. After evaluating the institution's performance in the two CMS categories, Board and Management Oversight and Compliance Program, and the dimensions of the violations in the third category, the examiner may conclude that the overall strength of the CMS and the nature of observed violations viewed together do not present significant supervisory concerns. Table 29 lists the consumer compliance component rating definitions.

**Table 29: Consumer Compliance Ratings**

<b>1</b>	The highest rating of 1 is assigned to a financial institution that maintains a strong CMS and takes action to prevent violations of law and consumer harm.
<b>2</b>	A rating of 2 is assigned to a financial institution that maintains a CMS that is satisfactory at managing consumer compliance risk in the institution's products and services and at substantially limiting violations of law and consumer harm.
<b>3</b>	A rating of 3 reflects a CMS deficient at managing consumer compliance risk in the institution's products and services and at limiting violations of law and consumer harm.
<b>4</b>	A rating of 4 reflects a CMS seriously deficient at managing consumer compliance risk in the institution's products and services or at preventing violations of law and consumer harm. "Seriously deficient" indicates fundamental and persistent weaknesses in crucial CMS elements and severe inadequacies in core compliance areas necessary to operate within the scope of statutory and regulatory consumer protection requirements and to prevent consumer harm.
<b>5</b>	A rating of 5 reflects a CMS critically deficient at managing consumer compliance risk in the institution's products and services or at preventing violations of law and consumer harm. "Critically deficient" indicates an absence of crucial CMS elements and a demonstrated lack of willingness or capability to take the appropriate steps necessary to operate within the scope of statutory and regulatory consumer protection requirements and to prevent consumer harm.

## Assignment of Ratings by Supervisor(s)

The prudential regulators continue to assign and update, as appropriate, consumer compliance ratings for institutions they supervise, including those with total assets of more than \$10 billion.<sup>90</sup> As an FFIEC member, the CFPB also uses the CC Rating System to assign a consumer compliance rating, as appropriate, for institutions with total assets of more than \$10 billion, as well as for nonbanks for which the CFPB has jurisdiction regarding the enforcement of federal consumer financial laws as defined under Dodd–Frank.<sup>91</sup> The prudential regulators take into consideration any material supervisory information provided by the CFPB, as that information relates to covered supervisory activities or covered examinations.<sup>92</sup> Similarly, the CFPB takes into consideration any material supervisory information provided by prudential regulators in appropriate supervisory situations. (Updated in version 1.1)

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<sup>90</sup> Section 1025 of Dodd–Frank (12 USC 5515) applies to federally insured institutions with more than \$10 billion in total assets. This section granted the CFPB exclusive authority to examine insured depository institutions and their affiliates for compliance with federal consumer financial laws. The prudential regulators retained authority for examining insured depository institutions with more than \$10 billion in total assets for compliance with certain other laws related to consumer financial protection, including the Fair Housing Act, the SCRA, and section 5 of the Federal Trade Commission Act.

<sup>91</sup> Refer to 12 USC 5481 et seq., “Definitions.” A financial institution with assets over \$10 billion may receive a consumer compliance rating by both its primary prudential regulator and the CFPB. The rating is based on each agency’s review of the institution’s CMS and compliance with the federal consumer protection laws falling under each agency’s jurisdiction.

<sup>92</sup> The prudential regulators and the CFPB signed a Memorandum of Understanding on Supervisory Coordination dated May 16, 2012, intended to facilitate the coordination of supervisory activities involving financial institutions with more than \$10 billion in assets as required under Dodd–Frank.

# Community Reinvestment Act Rating System

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The CRA requires each appropriate federal financial supervisory agency to assess an institution’s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution.

The OCC evaluates a bank’s performance under the applicable performance criteria outlined in 12 CFR 25 (national banks) or 12 CFR 195 (FSAs), and assigns a rating of outstanding, satisfactory, needs to improve, or substantial noncompliance. 12 CFR 25 (national banks) and 195 (FSAs) provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices. Refer to OCC Bulletin 2018-23, “Community Reinvestment Act: Revisions to Impact of Evidence of Discriminatory or Other Illegal Credit Practices on Community Reinvestment Act Ratings,” and its attachment, PPM 5000-43, “Impact of Evidence of Discriminatory or Other Illegal Credit Practices on Community Reinvestment Act Ratings,” for the OCC’s policy and framework for determining the effects of discriminatory or other illegal credit practices on a bank’s CRA rating. (Updated in version 1.1)

Banks are evaluated using the large bank, small bank, intermediate small bank, wholesale or limited purpose bank, or strategic plan performance standards. Asset-size thresholds for the small, intermediate small, and large bank procedures are adjusted annually based on the annual percentage change in a measure of the consumer price index. Revisions to the asset-size thresholds are announced via OCC bulletins. Banks meeting the small and intermediate small bank asset-size thresholds are not subject to the reporting requirements applicable to large banks unless they choose to be evaluated as large banks.<sup>93</sup> In the case of a merger or acquisition, examiners should use the asset size of the surviving charter as of December 31 of the previous two calendar years to determine the appropriate evaluation type. Table 30 summarizes the CRA evaluation type by asset size.

**Table 30: CRA Evaluation Types**

<b>Evaluation Type</b>	<b>Criteria</b>
<b>Small bank</b>	<ul style="list-style-type: none"> <li>As defined and published via OCC Bulletin annually, based on asset size.</li> <li>Small banks can elect to be evaluated under the large bank CRA procedures if they collect and report the CRA data required for a large bank.</li> </ul>
<b>Intermediate small bank</b>	<ul style="list-style-type: none"> <li>As defined and published via OCC Bulletin annually, based on asset size.</li> <li>Intermediate small banks can elect to be evaluated under the large bank CRA procedures if they collect and report the CRA data required for a large bank.</li> </ul>
<b>Large bank</b>	<ul style="list-style-type: none"> <li>Assets greater than or equal to the current annual asset threshold for small banks for both of the last two calendar years.</li> <li>Has collected CRA data for one full year.</li> </ul>

<sup>93</sup> A small or intermediate small bank may elect to be evaluated under the large bank performance standards. A bank submits—and the OCC approves—a strategic plan to be eligible for evaluation under the strategic plan performance standards. Refer to OCC Bulletin 2019-39, “Community Reinvestment Act: Guidelines for Requesting Approval of a Strategic Plan,” for more information. (Footnote updated in version 1.1)

**Table 30: CRA Evaluation Types (continued)**

<b>Evaluation Type</b>	<b>Criteria</b>
<b>Limited purpose or wholesale bank</b>	<ul style="list-style-type: none"> <li>• Banks officially designated by the OCC as limited purpose or wholesale banks. Refer to OCC Bulletin 2019-40, “Community Reinvestment Act: Guidelines for Requesting Designation as a Wholesale, Limited Purpose, or Special Purpose Bank.” (Updated in version 1.1)</li> </ul>
<b>Strategic plan bank</b>	<ul style="list-style-type: none"> <li>• Banks operating under an OCC-approved CRA strategic plan.</li> <li>• A bank operating under a strategic plan may be evaluated under the applicable asset size-based evaluation type (i.e., small, intermediate small, or large bank) if it has               <ul style="list-style-type: none"> <li>- not substantially met its goals for a satisfactory rating under the plan.</li> <li>- designated the standard test as an alternative within the approved plan.</li> </ul> </li> </ul>

## Small and Intermediate Small Bank Performance Standards

### Overall Rating

The OCC assigns an overall CRA rating for a bank assessed under the small bank performance standards based on the lending test. The OCC assigns an overall CRA rating for a bank assessed under the intermediate small bank performance standards based on the lending test and the community development test. Table 31 contains the criteria for the overall CRA ratings for small and intermediate small banks.

**Table 31: Overall CRA Ratings for Small and Intermediate Small Banks**

<b>Rating</b>	<b>Criteria for Small Banks</b>	<b>Criteria for Intermediate Small Banks</b>
<b>Outstanding</b>	<p>A small bank that is not an intermediate small bank that meets each of the standards for a satisfactory rating under the lending test and exceeds some or all of those standards may warrant consideration for an overall rating of outstanding. In assessing whether a bank’s performance is outstanding, the OCC considers the extent to which the bank exceeds each of the performance standards for a satisfactory rating, its performance in making qualified investments, and its performance in providing branches and other services and delivery systems that enhance credit availability in its assessment area(s). These additional factors may increase the small bank’s overall rating from satisfactory to outstanding, but could not compensate for a needs to improve lending test rating.</p>	<p>An intermediate small bank that receives an outstanding rating on one test and at least satisfactory on the other test may receive an assigned overall rating of outstanding.</p>

**Table 31: Overall CRA Ratings for Small and Intermediate Small Banks (continued)**

Rating	Criteria for Small Banks	Criteria for Intermediate Small Banks
<b>Satisfactory</b>	A small bank that is not an intermediate small bank that, in general, meets each of the standards for a satisfactory rating under the lending test is eligible for an overall rating of satisfactory. In assessing whether a bank's performance is satisfactory, the OCC also considers the extent to which the bank exceeds one or more of the performance standards for a satisfactory rating.	No intermediate small bank may receive an assigned overall rating of satisfactory unless it receives a rating of at least satisfactory on both the lending test and the community development test.
<b>Needs to improve or substantial noncompliance</b>	A small bank may also receive a rating of needs to improve or substantial noncompliance depending on the degree to which its performance has failed to meet the standards for a satisfactory rating.	An intermediate small bank may also receive a rating of needs to improve or substantial noncompliance depending on the degree to which its performance has failed to meet the standards for a satisfactory rating.

## Lending Test (Small and Intermediate Small Banks)

The OCC assigns each small and intermediate small bank's lending performance one of the three ratings in table 32.

**Table 32: Small and Intermediate Small Bank Lending Test Ratings**

Rating	Criteria
<b>Outstanding</b>	A small or intermediate small bank that meets each of the standards for a satisfactory rating and exceeds some or all of those standards may warrant consideration for a lending test rating of outstanding.
<b>Satisfactory</b>	<p>The OCC rates a small or intermediate small bank's lending performance satisfactory if, in general, the bank demonstrates the following:</p> <ul style="list-style-type: none"> <li>• A reasonable loan-to-deposit ratio (considering seasonal variations) given the bank's size, financial condition, and the credit needs of its assessment area(s), and taking into account, as appropriate, other lending-related activities such as loan originations for sale to the secondary markets and community development loans and qualified investments.</li> <li>• A majority of its loans and, as appropriate, other lending-related activities are in its assessment area(s).</li> <li>• A distribution of loans to and, as appropriate, other lending-related activities for individuals of different income levels (including low- and moderate-income individuals) and businesses and farms of different sizes that is reasonable given the demographics of the bank's assessment area(s).</li> <li>• A record of taking appropriate action, when warranted, in response to written complaints, if any, about the bank's performance in helping to meet the credit needs of its assessment area(s).</li> <li>• A reasonable geographic distribution of loans given the bank's assessment area(s).</li> </ul>
<b>Needs to improve or substantial noncompliance</b>	A small or intermediate small bank may receive a lending test rating of needs to improve or substantial noncompliance depending on the degree to which its performance has failed to meet the standards for a satisfactory rating.



## Community Development Test (Intermediate Small Banks)

The OCC assigns each intermediate small bank's community development performance one of the three ratings in table 33.

**Table 33: Intermediate Small Bank Community Development Test Ratings**

<b>Rating</b>	<b>Criteria</b>
<b>Outstanding</b>	The OCC rates an intermediate small bank's community development performance outstanding if the bank demonstrates excellent responsiveness to community development needs in its assessment area(s) through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area(s).
<b>Satisfactory</b>	The OCC rates an intermediate small bank's community development performance satisfactory if the bank demonstrates adequate responsiveness to the community development needs of its assessment area(s) through community development loans, qualified investments, and community development services. The adequacy of the bank's response depends on its capacity for such community development activities, its assessment area's need for such community development activities, and the availability of such opportunities for community development in the bank's assessment area(s).
<b>Needs to improve or substantial noncompliance</b>	An intermediate small bank may also receive a community development test rating of needs to improve or substantial noncompliance depending on the degree to which its performance has failed to meet the standards for a satisfactory rating.

## Large Bank Performance Standards

The OCC assigns a rating for a large bank assessed under the lending, investment, and service tests in accordance with the following principles:

- A bank that receives an outstanding rating on the lending test receives an assigned rating of at least satisfactory.
- A bank that receives an outstanding rating on both the service test and the investment test and a rating of at least high satisfactory on the lending test receives an assigned rating of outstanding.
- No bank may receive an assigned rating of satisfactory or higher unless it receives a rating of at least low satisfactory on the lending test.

## Lending Performance

The OCC assigns each large bank's lending performance one of the five ratings in table 34.

**Table 34: Large Bank CRA Lending Performance Ratings**

Rating	Criteria
<b>Outstanding</b>	<ul style="list-style-type: none"> <li>• Excellent responsiveness to credit needs in its assessment area(s), taking into account the number and amount of home mortgages and small business, small farm, and consumer loans, if applicable, in its assessment area(s).</li> <li>• Substantial majority of its loans made in its assessment area(s).</li> <li>• Excellent geographic distribution of loans in its assessment area(s).</li> <li>• Excellent distribution, particularly in its assessment area(s), of loans among individuals of different income levels and businesses (including farms) of different sizes, given the product lines offered by the bank.</li> <li>• Excellent record of serving the credit needs of highly economically disadvantaged areas in its assessment area(s), low-income individuals, or businesses (including farms) with gross annual revenues of \$1 million or less, consistent with safe and sound operations.</li> <li>• Extensive use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies.</li> <li>• Leader in making community development loans.</li> </ul>
<b>High satisfactory</b>	<ul style="list-style-type: none"> <li>• Good responsiveness to credit needs in its assessment area(s), taking into account the number and amount of home mortgage, small business, small farm, and consumer loans, if applicable, in its assessment area(s).</li> <li>• High percentage of its loans made in its assessment area(s).</li> <li>• Good geographic distribution of loans in its assessment area(s).</li> <li>• Good distribution, particularly in its assessment area(s), of loans among individuals of different income levels and businesses (including farms) of different sizes, given the product lines offered by the bank.</li> <li>• Good record of serving the credit needs of highly economically disadvantaged areas in its assessment area(s), low-income individuals, or businesses (including farms) with gross annual revenues of \$1 million or less, consistent with safe and sound operations.</li> <li>• Use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies.</li> <li>• Relatively high level of community development loans.</li> </ul>
<b>Low satisfactory</b>	<ul style="list-style-type: none"> <li>• Adequate responsiveness to credit needs in its assessment area(s), taking into account the number and amount of home mortgage, small business, small farm, and consumer loans, if applicable, in its assessment area(s).</li> <li>• Adequate percentage of its loans made in its assessment area(s).</li> <li>• Adequate geographic distribution of loans in its assessment area(s).</li> <li>• Adequate distribution, particularly in its assessment area(s), of loans among individuals of different income levels and businesses (including farms) of different sizes, given the product lines offered by the bank.</li> <li>• Adequate record of serving the credit needs of highly economically disadvantaged areas in its assessment area(s), low-income individuals, or businesses (including farms) with gross annual revenues of \$1 million or less, consistent with safe and sound operations.</li> <li>• Limited use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies.</li> <li>• Adequate level of community development loans.</li> </ul>

**Table 34: Large Bank CRA Lending Performance Ratings (continued)**

Rating	Criteria
<b>Needs to improve</b>	<ul style="list-style-type: none"> <li>• Poor responsiveness to credit needs in its assessment area(s), taking into account the number and amount of home mortgage, small business, small farm, and consumer loans, if applicable, in its assessment area(s).</li> <li>• Small percentage of its loans is made in its assessment area(s).</li> <li>• Poor geographic distribution of loans, particularly to low- or moderate-income geographies, in its assessment area(s).</li> <li>• Poor distribution, particularly in its assessment area(s), of loans among individuals of different income levels and businesses (including farms) of different sizes, given the product lines offered by the bank.</li> <li>• Poor record of serving the credit needs of highly economically disadvantaged areas in its assessment area(s), low-income individuals, or businesses (including farms) with gross annual revenues of \$1 million or less, consistent with safe and sound operations.</li> <li>• Little use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies.</li> <li>• Low level of community development loans.</li> </ul>
<b>Substantial noncompliance</b>	<ul style="list-style-type: none"> <li>• Very poor responsiveness to credit needs in its assessment area(s), taking into account the number and amount of home mortgage, small business, small farm, and consumer loans, if applicable, in its assessment area(s).</li> <li>• Very small percentage of its loans are made in its assessment area(s).</li> <li>• Very poor geographic distribution of loans, particularly to low- or moderate-income geographies, in its assessment area(s).</li> <li>• Very poor distribution, particularly in its assessment area(s), of loans among individuals of different income levels and businesses (including farms) of different sizes, given the product lines offered by the bank.</li> <li>• Very poor record of serving the credit needs of highly economically disadvantaged areas in its assessment area(s), low-income individuals, or businesses (including farms) with gross annual revenues of \$1 million or less, consistent with safe and sound operations.</li> <li>• No use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies.</li> <li>• Few, if any, community development loans.</li> </ul>

## Investment Performance

The OCC assigns each large bank's investment performance one of the ratings in table 35.

**Table 35: Large Bank CRA Investment Performance Ratings**

Rating	Criteria
<b>Outstanding</b>	<ul style="list-style-type: none"> <li>• Excellent level of qualified investments, particularly those that are not routinely provided by private investors, often in a leadership position.</li> <li>• Extensive use of innovative or complex qualified investments.</li> <li>• Excellent responsiveness to credit and community development needs.</li> </ul>
<b>High satisfactory</b>	<ul style="list-style-type: none"> <li>• Significant level of qualified investments, particularly those that are not routinely provided by private investors, occasionally in a leadership position.</li> <li>• Significant use of innovative or complex qualified investments.</li> <li>• Good responsiveness to credit and community development needs.</li> </ul>

Table 35: Large Bank CRA Investment Performance Ratings (continued)

Rating	Criteria
<b>Low satisfactory</b>	<ul style="list-style-type: none"> <li>• Adequate level of qualified investments, particularly those that are not routinely provided by private investors, although rarely in a leadership position.</li> <li>• Occasional use of innovative or complex qualified investments.</li> <li>• Adequate responsiveness to credit and community development needs.</li> </ul>
<b>Needs to improve</b>	<ul style="list-style-type: none"> <li>• Poor level of qualified investments, particularly those that are not routinely provided by private investors.</li> <li>• Rare use of innovative or complex qualified investments.</li> <li>• Poor responsiveness to credit and community development needs.</li> </ul>
<b>Substantial noncompliance</b>	<ul style="list-style-type: none"> <li>• Few, if any, qualified investments, particularly those that are not routinely provided by private investors.</li> <li>• No use of innovative or complex qualified investments.</li> <li>• Very poor responsiveness to credit and community development needs.</li> </ul>

## Large Bank Service Performance

The OCC assigns each bank's service performance one of the five ratings in table 36.

Table 36: Large Bank CRA Service Performance Ratings

Rating	Criteria
<b>Outstanding</b>	<ul style="list-style-type: none"> <li>• Service delivery systems are readily accessible to geographies and individuals of different income levels in its assessment area(s).</li> <li>• To the extent changes have been made, its record of opening and closing branches has improved the accessibility of its delivery systems, particularly in low- or moderate-income geographies or to low- or moderate-income individuals.</li> <li>• Services (including, when appropriate, business hours) are tailored to the convenience and needs of its assessment area(s), particularly low- or moderate-income geographies or low- or moderate-income individuals.</li> <li>• Leader in providing community development services.</li> </ul>
<b>High satisfactory</b>	<ul style="list-style-type: none"> <li>• Service delivery systems are accessible to geographies and individuals of different income levels in its assessment area(s).</li> <li>• To the extent changes have been made, its record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and to low- and moderate-income individuals.</li> <li>• Services (including, when appropriate, business hours) do not vary in a way that inconveniences its assessment area(s), particularly low- and moderate-income geographies and low- and moderate-income individuals.</li> <li>• Relatively high level of community development services.</li> </ul>
<b>Low satisfactory</b>	<ul style="list-style-type: none"> <li>• Service delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment area(s).</li> <li>• To the extent changes have been made, its record of opening and closing branches has generally not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and to low- and moderate-income individuals.</li> <li>• Its services (including, when appropriate, business hours) do not vary in a way that inconveniences its assessment area(s), particularly low- and moderate-income geographies and low- and moderate-income individuals.</li> <li>• Adequate level of community development services.</li> </ul>

**Table 36: Large Bank CRA Service Performance Ratings (continued)**

Rating	Criteria
<b>Needs to improve</b>	<ul style="list-style-type: none"> <li>• Service delivery systems are unreasonably inaccessible to portions of its assessment area(s), particularly to low- or moderate-income geographies or to low- or moderate-income individuals.</li> <li>• To the extent changes have been made, its record of opening and closing branches has adversely affected the accessibility of its delivery systems, particularly in low- or moderate-income geographies or to low- or moderate-income individuals.</li> <li>• Services (including, when appropriate, business hours) vary in a way that inconveniences its assessment area(s), particularly low- or moderate-income geographies or low- or moderate-income individuals.</li> <li>• Limited level of community development services.</li> </ul>
<b>Substantial noncompliance</b>	<ul style="list-style-type: none"> <li>• Service delivery systems are unreasonably inaccessible to significant portions of its assessment area(s), particularly to low- or moderate-income geographies or to low- or moderate-income individuals.</li> <li>• To the extent changes have been made, its record of opening and closing branches has significantly adversely affected the accessibility of its delivery systems, particularly in low- or moderate-income geographies or to low- or moderate-income individuals.</li> <li>• Services (including, when appropriate, business hours) vary in a way that significantly inconveniences its assessment area(s), particularly low- or moderate-income geographies or low- or moderate-income individuals.</li> <li>• Few, if any, community development services.</li> </ul>

## Wholesale or Limited Purpose Bank Performance Standards

The CRA evaluation for a wholesale or limited purpose bank is based on its community development performance, to which the OCC assigns one of the four ratings in table 37.

**Table 37: Wholesale or Limited Purpose Bank Ratings**

Rating	Criteria
<b>Outstanding</b>	<ul style="list-style-type: none"> <li>• High level of community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors.</li> <li>• Extensive use of innovative or complex qualified investments, community development loans, or community development services.</li> <li>• Excellent responsiveness to credit and community development needs in its assessment area(s).</li> </ul>
<b>Satisfactory</b>	<ul style="list-style-type: none"> <li>• Adequate level of community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors.</li> <li>• Occasional use of innovative or complex qualified investments, community development loans, or community development services.</li> <li>• Adequate responsiveness to credit and community development needs in its assessment area(s).</li> </ul>

**Table 37: Wholesale or Limited Purpose Bank Ratings (continued)**

Rating	Criteria
<b>Needs to Improve</b>	<ul style="list-style-type: none"> <li>• Poor level of community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors.</li> <li>• Rare use of innovative or complex qualified investments, community development loans, or community development services.</li> <li>• Poor responsiveness to credit and community development needs in its assessment area(s).</li> </ul>
<b>Substantial Noncompliance</b>	<ul style="list-style-type: none"> <li>• Few, if any, community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors.</li> <li>• No use of innovative or complex qualified investments, community development loans, or community development services.</li> <li>• Very poor responsiveness to credit and community development needs in its assessment area(s).</li> </ul>

## Strategic Plan Assessment and Rating

Banks covered by a strategic plan define annual goals (i.e., goals for a satisfactory rating) for consideration in the CRA evaluation process. The OCC assesses the performance of a bank operating under an approved plan to determine whether the bank has met its plan goals and assigns a rating using the criteria in table 38.

**Table 38: CRA Strategic Plan Ratings**

Rating	Criteria
<b>Outstanding</b>	The bank exceeds its plan goals for a satisfactory rating and substantially achieves its goals for an outstanding rating.
<b>Satisfactory</b>	The bank substantially achieves its plan's goals for a satisfactory rating.
<b>Needs to Improve or Substantial Noncompliance</b>	If the bank fails to meet substantially its plan goals for a satisfactory rating, the OCC rates the bank as either needs to improve or substantial noncompliance, depending on the extent to which it falls short of its plan goals, unless the bank elected in its plan to be rated otherwise, as provided in 12 CFR 25.27(f)(4) (national banks) or 12 CFR 195.27(f)(4) (FSAs).

# ROCA Rating System

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## Overview

ROCA is the interagency uniform supervisory rating system for federal branches and agencies. The ROCA system's four components are risk management, operational controls, compliance, and asset quality. The ROCA composite rating indicates the overall condition of the federal branch or agency. The ROCA rating system is comparable with the CAMELS rating system. Unlike CAMELS, ROCA does not explicitly rate capital adequacy, earnings, and liquidity. In these areas, a federal branch or agency cannot be evaluated separately from the FBO.

## Composite ROCA Rating

The overall or composite rating indicates whether, in the aggregate, the operations of the branch or agency may present supervisory concerns and the extent of any concerns. The composite rating should not be merely an arithmetic average of the component ratings; some components often carry more weight than others. (For example, asset quality carries more weight as the financial strength of the FBO weakens.) Examiners should assign a composite rating using the definitions shown in table 39.

**Table 39: Composite ROCA Ratings**

<b>1</b>	Branches and agencies in this group are strong in every respect. These branches and agencies require only normal supervisory attention.
<b>2</b>	Branches and agencies in this group are in satisfactory condition, but may have modest weaknesses that can be corrected by the branch's or agency's management in the normal course of business. Generally, they do not require additional or more than normal supervisory attention.
<b>3</b>	Branches and agencies in this group are in fair condition because of a combination of weaknesses in risk management, operational controls, and compliance, or asset quality problems that, in combination with the condition of the FBO or other factors, cause supervisory concern. In addition, the branch's or agency's management or head office management may not be taking the necessary corrective actions to address substantive weaknesses. This rating may also be assigned when risk management, operational controls, or compliance is individually viewed as unsatisfactory. Generally, these branches and agencies raise supervisory concern and require more than normal supervisory attention to address their weaknesses.
<b>4</b>	Branches and agencies in this group are in marginal condition because of serious weaknesses as reflected in the assessments of the individual components. Serious problems or unsafe and unsound banking practices or operations exist, which have not been satisfactorily addressed or resolved by the branch's or agency's management or head office management. Branches and agencies in this category require close supervisory attention and surveillance monitoring, as well as a definitive plan for corrective action by the branch's or agency's management and head office management.
<b>5</b>	Branches and agencies in this group are in unsatisfactory condition because of a high level of severe weaknesses or unsafe and unsound conditions and consequently require urgent restructuring of operations by the branch's or agency's management and head office management.

## Component Ratings

Like the composite rating, the component ratings are evaluated on a scale from 1 to 5. Each component is discussed followed by a description of the individual performance ratings.

### Risk Management

Every bank is exposed to risk. Risk management, or the process of identifying, measuring, and controlling risk, is an important responsibility of any bank. A branch or agency is typically removed from its head office by location and time zone; therefore, an effective risk management system is critical not only to manage the scope of its activities but to achieve comprehensive, ongoing oversight by local and head office management. Examiners should determine the extent to which risk management techniques enable local and head office management (1) to achieve and maintain oversight of the branch's or agency's activities and (2) to control risk exposures that result from the branch's or agency's activities.

The primary components of a sound risk management system are a comprehensive risk assessment approach; a detailed structure of limits and other guidelines that govern risk-taking; and a strong management information system for monitoring and reporting risks.

In assessing risks, the branch or agency identifies each risk associated with its activities (both on and off the balance sheet) and groups them into risk categories. These categories broadly relate to credit, market, liquidity, operational, and legal risks.<sup>94</sup> All major risks should be measured explicitly and consistently by branch management, and they should be reevaluated on an ongoing basis as economic circumstances, market conditions, and the branch's or agency's activities change. The branch's or agency's expansion into new products or business lines should not outpace proper risk management or the head office's supervision. When risks cannot be explicitly measured, management should demonstrate knowledge of their potential impact and an ability to manage them. Serious deficiencies in a branch or agency's BSA/AML compliance create a presumption that the branch's or agency's risk management component rating will be adversely affected because its risk management practices are less than satisfactory. Examiners also consider BSA/AML examination findings when assigning the compliance component rating of ROCA.<sup>95</sup>

Risk identification and measurement are followed by an evaluation of risks and returns to establish acceptable risk exposure levels. The branch's or agency's lending and trading policies establish these levels, subject to the approval of head office management. Policies should set standards for undertaking and evaluating risk exposure in individual branch or agency activities as well as procedures for tracking and reporting risk exposure to monitor compliance with established policy limits or guidelines.

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<sup>94</sup> While operational risks are identified in the branch's or agency's overall risk assessment, the effectiveness of the branch's or agency's operational controls is evaluated separately.

<sup>95</sup> Refer to OCC Bulletin 2012-30.



Head office management has a role in developing and approving the branch's risk management system as part of its responsibility to provide a comprehensive system of oversight for the branch or agency. Generally, the branch's or agency's risk management system, including risk identification, measurement, limits or guidelines, and monitoring, should be modeled on that of the FBO. Doing so ensures a fully integrated, organization-wide risk management system.

In assigning the risk management rating, examiners should evaluate the branch's or agency's current situation, concentrating on developments since the previous examination. The rating should not concentrate on past problems, such as those relating to the current quality of the branch's or agency's stock of assets, if risk management techniques have improved significantly since those problems developed.<sup>96</sup> Table 40 lists the risk management ROCA component ratings.

**Table 40: Risk Management ROCA Component Ratings**

<b>1</b>	A rating of 1 indicates that management has implemented a fully integrated risk management system. The system effectively identifies and controls all major types of risk at the branch or agency, including those from new products and the changing environment. This assessment, in most cases, will be supported by a superior level of financial performance and asset quality at the branch or agency. No supervisory concerns are evident.
<b>2</b>	A rating of 2 indicates that the risk management system is fully effective with respect to almost all major risk factors. It reflects a responsiveness and ability to cope successfully with existing and foreseeable exposures that may arise in carrying out the branch's or agency's business plan. While the branch or agency may have residual weaknesses from past exposures, its management or the head office's management is addressing these problems. Any such weaknesses will not have a material adverse effect on the branch or agency. Generally, risks are being controlled in a manner that does not require additional or greater-than-normal supervisory attention.
<b>3</b>	A rating of 3 signifies a risk management system that is lacking in some important respects. Its relative ineffectiveness in dealing with the branch's or agency's risk exposures is cause for greater-than-normal supervisory attention, and deterioration in financial performance indicators is probable. Current risk-related procedures are considered fair, existing problems are not being satisfactorily addressed, or risks are not being adequately identified and controlled. While these deficiencies may not have caused significant problems yet, there are clear indications that the branch or agency is vulnerable to risk-related deterioration.
<b>4</b>	A rating of 4 indicates a marginal risk management system that generally fails to identify and control significant risk exposures in many important respects. Generally, such circumstances reflect a lack of adequate guidance and supervision by head office management. As a result, deterioration in overall performance is imminent or is already evident in the branch's or agency's overall performance since the previous examination. Failure of management to correct risk management deficiencies that have created significant problems in the past warrants close supervisory attention.
<b>5</b>	A rating of 5 indicates that the branch or agency has critical performance problems that are due to the absence of an effective risk management system in almost every respect. Not only is there a large volume of problem risk exposures but the problems are also intensifying. Management has not demonstrated the ability to stabilize the branch's or agency's situation. If corrective actions are not taken immediately, the branch's or agency's ability to continue operating is in jeopardy.

<sup>96</sup> Thus, for example, the change in the level of problem assets since the previous examination would normally be more important than the absolute level of problem assets. At the same time, a loan portfolio that has few borrowers experiencing debt service problems does not necessarily indicate a sound risk management system because underwriting standards may make the branch vulnerable to credit problems during a future economic downturn.

## Operational Controls

This component assesses the effectiveness of the branch's or agency's operational controls, including accounting and financial controls. Examiners expect branches and agencies to have an independent internal audit function, an adequate system of head office or external audits, or both. They should have a system of internal controls consistent with the size and complexity of their operations. Internal audit and control procedures should ensure that operations are conducted in accordance with internal guidelines and regulatory policies and that all reports and analyses provided to the head office and branch or agency senior management are comprehensive, timely, and accurate.

The OCC's supervision of a branch's or agency's operational controls has two basic goals. The first goal is to prevent branches and agencies participating in U.S. financial markets from undermining the high standards of, efficiency of, and confidence in the U.S. markets. The second goal is to ensure that head office management has adequate internal controls in place at the branch or agency (1) to ensure that the branch or agency is operating within corporate policies, and (2) to enable head office management, as well as the home country supervisor, to supervise the FBO on a consolidated basis in accordance with the supervisory principles of the Basel Committee on Banking Supervision. Table 41 lists the operational controls ROCA component rating definitions.

**Table 41: Operational Controls ROCA Component Ratings**

<b>1</b>	A rating of 1 indicates that the branch or agency has a fully comprehensive system of operational controls that protects against losses from transactional and operational risks and ensures accurate financial reporting. In addition, branch or agency operations are fully consistent with sound market practices. The branch or agency also has a well-defined and independent audit function that is appropriate to the size and risk profile of the branch or agency. No supervisory concerns are evident.
<b>2</b>	A rating of 2 may indicate some minor weaknesses, such as modest control deficiencies caused by new business activities, that management is addressing. Some recommendations may be noted. Overall, the system of controls, including the audit function, is considered satisfactory and effective in maintaining a safe and sound branch or agency operation. Only routine supervisory attention is required.
<b>3</b>	A rating of 3 indicates that the branch's or agency's system of controls, including the quality of the audit function, is lacking in some important respects. Particular weakness is evidenced by continued control exceptions, substantial deficiencies in written policies and procedures, or the failure to adhere to written policies and procedures. As a result, greater-than-normal supervisory attention is required.
<b>4</b>	A rating of 4 signifies that the branch's or agency's system of operational controls has serious deficiencies that require substantial improvement. In such a case, the branch or agency may lack control functions, including those related to the audit function, that meet minimal expectations. Therefore, the branch's or agency's adherence to FBO and regulatory policies is questionable. Head office management has failed to give the branch or agency proper support to maintain operations in accordance with U.S. norms. Close supervisory attention is required.
<b>5</b>	A rating of 5 indicates that the branch's or agency's system of operational controls is so inadequate that its operations are in serious jeopardy. The branch or agency either lacks an audit function or has a wholly deficient one. The branch's or agency's management should improve operational controls immediately. Examiners should give the situation strong supervisory attention.

## Compliance

Branches and agencies should demonstrate compliance with all applicable state and federal laws and regulations, including reporting and special supervisory requirements. To the extent possible, given the size and risk profile of the branch or agency, these responsibilities should be vested in a branch or agency official or compliance officer who is not a line manager and does not report to one. Branch or agency management should regularly ensure that all appropriate personnel are properly trained in meeting regulatory requirements. The audit function should be sufficient in scope to ensure that the branch or agency is meeting all applicable regulatory requirements. Table 42 lists the compliance ROCA component rating definitions.

**Table 42: Compliance ROCA Component Ratings**

<b>1</b>	A rating of 1 indicates an outstanding level of compliance with applicable laws, regulations, and reporting requirements. No supervisory concerns are evident.
<b>2</b>	A rating of 2 indicates that compliance is generally effective with respect to most factors. Compliance monitoring and related training programs are sufficient to prevent significant problems. Although minor reporting errors may be present, they are being adequately addressed by branch or agency management. Only normal supervisory attention is warranted.
<b>3</b>	A rating of 3 indicates that deficiencies in management and training systems have produced an atmosphere in which significant compliance problems could and do occur. Such deficiencies could include the lack of written compliance procedures, the absence of a system for identifying possible compliance issues, or a substantial number of minor or repeat violations or deficiencies. Greater-than-normal supervisory attention is warranted.
<b>4</b>	A rating of 4 indicates that the branch's or agency's and head office's management does not give compliance matters proper attention. Close supervisory attention is warranted. The branch or agency may not have an effective compliance program or an ongoing training program. It may fail to meet significant regulatory requirements, or its regulatory reports may contain significant, widespread inaccuracies.
<b>5</b>	A rating of 5 signals that the branch's or agency's attention to compliance matters is wholly lacking. Immediate supervisory attention is warranted.

## Asset Quality

A national bank's or FSA's asset quality is evaluated to determine whether it has sufficient capital to absorb prospective losses and, ultimately, whether it can maintain its viability as an ongoing enterprise. The evaluation of asset quality in a branch or agency does not have the same purpose because a branch or agency is not a separately capitalized entity. Instead, a branch's or agency's viability depends on the financial and managerial support of the FBO.

The ability of a branch or agency to honor its liabilities ultimately is based on the FBO's condition and level of support from the FBO, a concept that is integral to the FBO Supervision Program. As indicated above, a branch or agency is not strictly limited by its own internal and external funding sources in meeting solvency and liquidity needs. Nonetheless, the evaluation of asset quality is important in assessing both the effectiveness of credit risk management and the ability of the branch's or agency's assets to pay liabilities and claims in liquidation. (Generally, credit administration concerns should be addressed in rating the risk management component.)

In the OCC’s FBO Supervision Program, an FBO whose financial condition is satisfactory is presumed to be able to support the branch or agency with sufficient capital and reserves on a consolidated basis. As a result, the assessment of asset quality in such circumstances would not be a predominant factor in the branch’s or agency’s overall assessment, if existing risk management techniques are satisfactory. If, however, the condition of the FBO is less than satisfactory or support from the FBO is questionable, the evaluation of asset quality should be carefully considered in determining whether supervisory actions are needed to improve the branch’s or agency’s ability to meet its obligations on a stand-alone basis. When a branch or agency is subject to asset maintenance, it is expected to address asset quality issues by removing classified assets from the list of eligible assets.

It may be appropriate for examiners to give the component for asset quality greater or lesser weight in a composite rating as the FBO’s condition changes. For example, if the financial strength of the FBO weakens, the quality of assets booked in the United States becomes increasingly important as the source of protection for local creditors, and the “A” in ROCA should have more weight. Examiners may also choose to give the asset quality component more weight if the FBO’s support for the branch or agency becomes questionable. But examiners should use their judgment in such circumstances. For example, a branch or agency that holds problem assets for other offices so that the FBO can better manage the workout process should not be penalized, so long as the FBO has the ability to support the level of problem assets. And when the FBO is strong and the need to look to local assets for protection of creditors seems remote, the quality of local assets is less important, and the “A” in ROCA should carry less weight. Table 43 lists the asset quality ROCA component rating definitions.

**Table 43: Asset Quality ROCA Component Ratings**

<b>1</b>	A branch or agency accorded a rating of 1 has strong asset quality.
<b>2</b>	A branch or agency accorded a rating of 2 has satisfactory asset quality.
<b>3</b>	A branch or agency accorded a rating of 3 has fair asset quality.
<b>4</b>	A branch or agency accorded a rating of 4 has marginal asset quality.
<b>5</b>	A branch or agency accorded a rating of 5 has unsatisfactory asset quality.

# Appendixes

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## Appendix A: Functional Regulation

The Gramm–Leach–Bliley Act (GLBA) imposed strict limits on the OCC’s authority to examine, require reports from, impose capital requirements on, require funds from, and take direct or indirect actions against FRAs. Dodd–Frank later modified or removed many of these limits, restoring much of the authority the OCC had over FRAs before the GLBA’s enactment. The OCC may not impose capital adequacy standards on FRAs’ functionally regulated activities. In addition, although Dodd–Frank eliminated the GLBA’s strict limits on examinations of and reporting by FRAs, the OCC must give notice to and consult with FRAs’ primary regulators before conducting examinations. The OCC also is required to use, to the fullest extent possible, examination reports and other supervisory information available from other federal and state regulatory agencies, externally audited financial statements, and other publicly available information.<sup>97</sup>

These limitations do not apply when banks conduct functionally regulated activities. For example, a bank may choose to register either the bank or a separately identified department or division (SIDD) of the bank with the SEC as a registered investment adviser (RIA). If the bank or SIDD registers as an RIA, the functional regulator (i.e., the SEC) is responsible for interpreting and enforcing laws under its jurisdiction. Because the activity is fiduciary in nature, the OCC has separate statutory authority over the activity. In addition, the OCC has supervisory authority over the activity for safety and soundness reasons.

### OCC Authority Over FRAs

#### Examinations

The OCC has broad authority, subject to certain limits, to examine banks and their affiliates. 12 USC 481 assigns to OCC examiners the authority to make thorough examinations of all the affairs of national banks. This includes “an examination of the affairs of all of its [the bank’s] affiliates, other than member banks, as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank.” This authority applies to all nonbank affiliates, including affiliates directly owned or controlled by bank holding companies, and bank subsidiaries, such as operating subsidiaries and financial subsidiaries.<sup>98</sup> The OCC has similarly broad authority

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<sup>97</sup> The GLBA imposed limits on the Federal Reserve’s authority over a functionally regulated subsidiary of a bank holding company. The GLBA made the OCC and the other federal banking agencies subject to those same limits with respect to FRAs. Those limitations were incorporated by reference to the relevant statute into 12 USC 1831v, the statute governing the federal banking agencies’ authority over FRAs. Refer to 12 USC 1831v, which applies the provisions of 12 USC 1844(c) and 12 USC 1844(g) to the OCC.

<sup>98</sup> As regulator of a lead insured depository institution, the OCC also has express backup examination and enforcement authority over nonbank subsidiaries of bank holding companies engaged in bank-eligible activities (such as mortgage lending). Refer to 12 USC 1831c. The backup authority does not apply to FRAs.

under 12 USC 1464 with respect to FSAs and their affiliates. The OCC does not have authority to examine FRAs that are registered investment companies (e.g., mutual funds).

The OCC's examination authority over FRAs is subject to certain statutory limits. For example, before examining an FRA, the OCC is required to provide reasonable notice to, and consult with, the FRA's functional regulator.<sup>99</sup> In addition, the OCC must avoid, to the fullest extent possible, duplicating examination activities, reporting requirements, and requests for information. The OCC is also required to rely, to the fullest extent possible, on existing reports and other supervisory information, including<sup>100</sup>

- examination reports made by other federal and state regulatory agencies.
- reports and other supervisory information that the FRA has been required to provide to its federal or state regulatory agencies.
- the FRA's externally audited financial statements.
- information otherwise available from federal or state regulatory agencies.
- information that is otherwise required to be reported publicly.

## Authority to Require Reports

The OCC has authority, subject to certain limits, to require reports directly from an FRA to assess the risks the FRA may pose to an OCC-supervised bank. As with examinations, however, the OCC is required to use, to the fullest extent possible, existing reports and other supervisory information.<sup>101</sup> In addition, examiners may seek information on an FRA from the bank or from sources other than the FRA. As a practical matter, OCC examiners can often obtain much of the information needed to assess the risks posed to the bank by an FRA or functionally regulated activities by regularly reviewing existing bank reports and meeting with compliance officers, auditors, risk officers, and other bank personnel.

## Authority to Take Direct and Indirect Actions

The OCC has authority to take enforcement actions against an FRA that is a bank subsidiary if the OCC determines that the subsidiary is operating in violation of laws, regulations, or written conditions; is operating in an unsafe or unsound manner; or otherwise threatens the bank's safety and soundness. The OCC does not have the same authority to take actions against functionally regulated, nonbank affiliates that are not bank subsidiaries. The OCC, however, has authority pursuant to 12 USC 1828a to impose restrictions or requirements on transactions between a bank and its subsidiaries that the OCC determines are appropriate.

## Capital Requirements

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<sup>99</sup> Refer to 12 USC 1831c(f).

<sup>100</sup> Refer to 12 USC 1844(c)(2), as incorporated by reference in 12 USC 1831v(a)(1) and made applicable to the OCC with respect to examinations of and reporting by FRAs.

<sup>101</sup> Refer to 12 USC 1844(c)(1), as incorporated by reference in 12 USC 1831v(a)(1) and made applicable to the OCC with respect to reporting by FRAs.

The OCC may not prescribe or impose any capital or capital adequacy rules, guidelines, standards, or requirements on an FRA with respect to the FRA's functionally regulated activities.<sup>102</sup> The OCC also is prohibited from requiring that certain nonbank affiliates, such as insurance companies, registered broker-dealers, and investment advisers, provide funds to their affiliated OCC-supervised banks.<sup>103</sup>

## Examinations of Banks With FRAs

Many banks are part of diversified financial organizations that include FRAs. The OCC, as the primary regulator of federally chartered banks, maintains a vital interest in understanding all of the risks affecting these banks, including risks emanating on an enterprise-wide basis. The OCC's supervisory process focuses on reviewing and assessing the banks' consolidated risk profiles and their systems for monitoring and controlling risks. An examiner's risk assessment of a bank includes evaluating the potential risks posed to the bank by FRAs, including risks arising from intercompany transactions, ~~reputational exposure from the FRAs' activities,~~ and compliance with laws and regulations under the OCC's jurisdiction. FRAs that are bank subsidiaries or provide services to the bank require an analysis of the associated risks and the effectiveness of the bank's and FRA's risk management systems for monitoring and controlling such risks. An examiner's risk assessment embraces the OCC's supervision-by-risk approach by determining how frequently and extensively risks posed by FRAs should be analyzed.

An examiner should consult with his or her appropriate supervisor before requesting information from or conducting an FRA examination. The OCC office that has supervisory authority for the lead OCC-supervised bank of a multibank holding company, the OCC-supervised bank affiliates of a multibank holding company with a lead state bank, or the lead bank in a chain banking organization is responsible for coordinating the examinations of affiliated banks in the organization with other regulatory agencies.

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<sup>102</sup> Refer to 12 USC 1844(c)(3) as incorporated by reference in 12 USC 1831v(a)(1) and made applicable to the OCC with respect to imposing capital requirements on FRAs. This limitation would apply only to the extent the OCC otherwise has the authority to impose capital requirements on an FRA.

<sup>103</sup> Refer to 12 USC 1844(g), as incorporated by reference in 12 USC 1831v(a)(2) and made applicable to the OCC with respect to imposing capital requirements on FRAs.

## Appendix B: Examiner Access to Bank Books and Records

(Appendix added in version 1.1)

Pursuant to 12 USC 481 (national banks) and 12 USC 1464(d)(1)(B) (FSAs), OCC examiners are authorized to make a thorough examination of a bank, which includes prompt and unrestricted access to the bank's books and records.<sup>104</sup> The OCC's authority applies to all supervisory activities and is not limited to supervisory activities of a specific length, scope, or type. Also included within the scope of the OCC's authority is that OCC examiners must be able to communicate freely with bank personnel.

In some circumstances, examiners may also review the books and records of bank affiliates and subsidiaries. In the case of FRAs, the OCC is required to give notice to and consult with the FRA's primary regulator before conducting an examination of the FRA, and, to the fullest extent possible, avoid duplication of examination activities, reporting requirements, and requests for information. For more information, refer to appendix A of this booklet and consult with OCC legal counsel before attempting to access books and records of an FRA.

Pursuant to 12 USC 1867(c) (national banks and FSAs) and 12 USC 1464(d)(7)(D) (FSAs), the OCC has the authority to examine functions or operations performed on behalf of a bank by a third party. Examiners also are entitled to access the third party's books and records relevant to such services provided by a third party to the same extent as if the bank were performing the services itself.

A bank's failure to provide timely examiner access, or efforts by the board of directors or bank management to impede the bank staff's ability to provide such access, may result in enforcement action. Furthermore, examination obstruction may subject individuals to criminal prosecution. Refer to 18 USC 1517, "Obstructing Examination of Financial Institution."

### Communications Technology Used by Banks

The OCC supports responsible innovation in the banking industry that is consistent with OCC expectations and safe and sound banking practices, but communications technology should not be used in a way that limits examiner access to bank records. Certain available communications technology contains data deletion and encryption features that can be used to prevent or impede OCC access to a bank's books and records. For example, the OCC is aware that some chat and messaging platforms have touted an ability to "guarantee" the deletion of transmitted messages. The permanent deletion of internal communications, especially if occurring within a relatively short time frame, conflicts with OCC expectations of sound governance, compliance, and risk management practices as well as safety and soundness principles. Communications technology adopted by banks must allow for examiner access to appropriate bank records. Banks' record retention practices should account for such technologies, when used.

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<sup>104</sup> In addition, the Comptroller may call for special reports from any national bank whenever necessary for the Comptroller's use in the performance of the agency's supervisory duties. Refer to 12 USC 161 (national banks).



## Appendix C: Glossary

**Affiliate:** This term includes (but is not limited to) any company that controls a bank and any company that is controlled by the same person or company that controls the bank.

**Aggregate risk:** A summary conclusion about the level of supervisory concern. It incorporates assessments about the quantity of risk and the quality of risk management. Examiners characterize aggregate risk as low, moderate, or high. A component of the RAS.

**Asset management:** The business of providing financial products and services to a third party for a fee or commission. Asset management activities include trust and fiduciary services, investment management, retirement planning, corporate trust administration, custody, safekeeping, securities lending services, security-holder and transfer agent services, and retail sales of nondeposit investment products.

**Bankers' bank:** Owned exclusively, except for directors' qualifying shares, by other depository institutions or depository institution holding companies. Bankers' bank activities are limited to providing (1) services to or for other depository institutions, their holding companies, or the officers, directors, and employees of such institutions; and (2) correspondent banking services at the request of other depository institutions or their holding companies. A type of special purpose bank.

**Banks:** Collectively, national banks, FSAs, and federal branches and agencies of FBOs.

**Board:** A bank's board of directors. As used in this booklet, "board" generally also means a designated board committee, as appropriate.

**Cash management bank:** Normally affiliated with a bank through a bank holding company or savings and loan holding company structure with other banks that engage in a full array of commercial activities. A cash management bank provides certain financial services to its large corporate customers. A type of special purpose bank.

**Cause:** An MRA component that notes the root cause of the concern when it is evident. When the root cause is not evident, the OCC may require bank management to determine the root cause as part of the corrective action.

**Chain banking group:** Two or more independently chartered financial institutions, including at least one federally chartered bank, controlled either directly or indirectly by the same individual, family, or group of individuals closely associated in their business dealings. A registered multibank holding company and its subsidiary banks are generally not considered to be a chain banking organization unless the holding company is linked to other banking organizations through common control.

**Civil money penalty (CMP):** A type of enforcement action that requires monetary payments to penalize a bank, its directors, or other persons participating in the affairs of the bank for violations, unsafe or unsound practices, or breaches of fiduciary duty.

**Closed:** In the context of an MRA or a violation of law or regulation, the bank has completed corrective actions, and the OCC has verified and validated the bank's corrective actions; a change in the bank's circumstances corrected the violation; or the violation is otherwise deemed uncorrectable. Closed violations should be communicated as closed in a subsequent ROE, supervisory letter, or written list of violations.

**Commitment:** In the context of an MRA or a violation of law or regulation, relates to the bank's action plan, including specific information regarding milestones, the completion date, and staff who are accountable for implementation.

**Common core ROE:** The OCC's required ROE format, unless the bank is a community bank that qualifies for the streamlined ROE.

**Community development bank:** A bank with a stated mission to primarily benefit the underserved communities in which the bank is chartered to conduct business. A type of special purpose bank.

**Concern:** A component of an MRA that describes a deficient bank practice and how it deviates from sound governance, internal control, or risk management principles, or results in substantive noncompliance with laws or regulations, enforcement actions, or conditions imposed in writing.

**Consequence:** An MRA component that explains how continuation of the deficient practice could affect the bank's condition, including its financial performance or risk profile.

**Core assessment:** Establishes the minimum conclusions that examiners must reach to assess risks and assign regulatory ratings.

**Core knowledge:** A basic profile about the bank, its corporate structure, operations, products and services, culture, and risk appetite. It provides the OCC with the means to assess changes in a bank's activities, products, and services; identify changes in basic risk management controls; and identify broad supervisory issues. Core knowledge should be a virtual snapshot of the most current information about the bank.

**Corrective action:** In the context of an MRA or violation of law or regulation, what management or the board must do to address the concern or correct the violation of law or regulation.

**Credit card bank:** A type of special purpose bank that has a primary business line of issuing credit cards, generating credit card receivables, and developing activities incidental to the credit card business. Credit card banks are FDIC-insured. Credit card banks typically meet the following criteria:

- These banks engage exclusively or predominantly in credit card activities and are directly owned by holding companies or individual shareholders. Credit card banks may legally

offer additional commercial banking services, such as deposit accounts for these banks' employees, unless prohibited by articles of association.

- CEBA credit card banks are owned by nonbank holding companies, commercial entities, or banks. CEBA credit card banks must qualify for the exemption created by the CEBA amendment to the Bank Holding Company Act.<sup>105</sup>

**Deficiencies:** A term used to collectively describe deficient practices and violations.

**Deficient practice:** A deficient practice is a practice, or lack of practices, that

- deviates from sound governance, internal control, or risk management principles and has the potential to adversely affect the bank's condition, including financial performance or risk profile, if not addressed, or
- results in substantive noncompliance with laws or regulations, enforcement actions, or conditions imposed in writing in connection with the approval of any applications or other requests by the bank.

**Direction of risk:** A prospective assessment of the probable movement in aggregate risk over the next 12 months. The direction of risk is characterized as decreasing, stable, or increasing. A component of the RAS.

**Enforcement action:** The OCC uses enforcement actions to require a bank's board and management to take actions to correct a bank's deficiencies. The OCC takes enforcement actions against banks and their current or former IAPs. Enforcement actions are more severe than MRAs. Enforcement actions do not include restrictions imposed by the OCC in response to a bank's licensing filing or by operation of law (e.g., mandatory restrictions pursuant to 12 CFR 6, "Prompt Corrective Action," or consequences of being in "troubled condition" under 12 CFR 5.51(c)(7)). For more information, refer to the "Enforcement Actions" section of this booklet. (Updated in version 1.1)

**Escalated:** In the context of an MRA, subsequent to a concern's communication to the bank in an MRA, the OCC addressed the uncorrected concern in an enforcement action.

**Expanded procedures:** Examination procedures that contain detailed guidance for examining specialized activities or products that warrant extra review beyond the core assessment. These procedures are found in other booklets of the *Comptroller's Handbook*, the *FFIEC BSA/AML Examination Manual*, or the *FFIEC IT Examination Handbook*, or conveyed separately in an OCC bulletin.

**Federal branches and agencies:** Offices of FBOs licensed by the OCC to conduct banking business in the United States.

**Formal written communication:** Written communication with the bank's board or management, such as an ROE or supervisory letter.

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<sup>105</sup> Refer to 12 USC 1841(c)(2)(F).

**Full-scope, on-site examination:** The OCC defines the full-scope, on-site examination, required by 12 CFR 4.6 and 4.7, as examination activities performed during the supervisory cycle that

- satisfy the core assessment and are sufficient in scope to assign or confirm a bank’s regulatory ratings, except CRA ratings.
- result in conclusions about a bank’s risk profile.
- review the bank’s BSA compliance program.
- include on-site supervisory activities.
- conclude with the issuance of an ROE.

For more information, refer to the “Examination Authority and Full-Scope, On-Site Examination Requirement” section of this booklet.

**Functionally regulated affiliate (FRA):** A bank affiliate (including a bank operating subsidiary) whose primary regulator is the SEC, a state insurance commissioner, or the CFTC. FRAs include

- SEC-registered securities broker-dealers.
- SEC or state-registered investment advisers.
- SEC-registered investment companies (e.g., mutual funds).
- state-supervised insurance companies and agencies.
- CFTC-registered or regulated entities (e.g., futures commission merchants, commodity pools, commodity pool operators, or commodities trading advisors).

Refer to appendix A, “Functional Regulation,” for more information regarding regulation of FRAs.

**Institution-affiliated party (IAP):** An IAP, as defined in 12 USC 1813(u), includes the following: (Term added in version 1.1)

- Any director, officer, employee, or controlling stockholder (other than a bank holding company or savings and loan holding company) of, or agent for, an insured depository institution.
- Any other person who has filed or is required to file a change-in-control notice (refer to 12 USC 1817(j) and 12 CFR 5.50).
- Any shareholder (other than a bank holding company or savings and loan holding company), consultant, joint venture partner, and other person as determined by the OCC (by regulation or case-by-case) who participates in the conduct of the affairs of an insured depository institution.
- Any independent contractor (including any attorney, appraiser, or accountant) who knowingly or recklessly participates in any violation of law or regulation, breach of fiduciary duty, or unsafe or unsound practice, which caused or is likely to cause more than a minimal financial loss to, or a significant adverse effect on, the insured depository institution.

**Lead OCC-supervised bank:** The OCC-supervised affiliate with the most assets, unless the company designates another bank as “lead.”

**Mandatory core pages:** ROE pages that are required in most circumstances or when certain conditions are met.

**Matters requiring attention (MRA):** The OCC uses MRAs to communicate concerns about a bank’s deficient practices.

**New:** In the context of MRAs or violations of laws or regulations, a concern or violation that does not meet the definition of “repeat.”

**Ongoing supervision:** The OCC’s process for assessing risks and reviewing core knowledge about a bank on an ongoing basis. A type of supervisory activity.

**Optional core pages:** Pages that should be included in the ROE only if they are necessary to address supervisory activities pertinent to the bank or to support examination conclusions.

**Past due:** In the context of an MRA or violation of law or regulation, the bank has not implemented the corrective action within the expected time frame, or during the validation process examiners determine that the corrective action is not effective or sustainable.

**Pending validation:** In the context of an MRA or a violation of law or regulation, the OCC verified that the bank implemented the corrective action, but insufficient time has passed for the bank to demonstrate sustained performance under the corrective action, and the OCC has not validated the sustainability of the corrective action.

**Quality of risk management:** How well risks are identified, measured, monitored, and controlled; characterized as strong, satisfactory, insufficient, or weak. A component of the RAS.

**Quantity of risk:** The level or volume of risk that the bank faces and is characterized as low, moderate, or high. A component of the RAS.

**Regulatory ratings:** A bank’s ratings as assigned under the applicable uniform interagency rating system(s) (e.g., CAMELS/ITC, ROCA).

**Related organization:** Various types of entities related to a bank, typically by common ownership or control. Generally, related organizations are affiliates or subsidiaries.

**Repeat:** In the context of an MRA, the same or a substantially similar concern has reoccurred. For a concern to be a repeat concern,

- the OCC must have previously communicated the concern in an MRA or enforcement action during the prior five-year period, and

- subsequent to the initial communication, the bank corrected the deficient practice and the OCC validated and closed the concern, but the concern has reoccurred.

In the context of a violation of law or regulation, the OCC communicated the violation in writing during the previous five-year period and new violations of the same or substantially similar regulation or law occur subsequent to the board or management receiving notification.

**Risk:** The potential that events will have an adverse effect on a bank's current or projected financial condition and resilience. Financial condition includes impacts from diminished capital and liquidity. Capital in this context includes potential impacts from losses, reduced earnings, and market value of equity. Resilience recognizes the bank's ability to withstand periods of stress.

**Risk assessment system (RAS):** A concise method of communicating and documenting conclusions regarding the quantity of risk, the quality of risk management, the level of supervisory concern (measured as aggregate risk), and the direction of risk for eight seven risk categories: credit, interest rate, liquidity, price, operational, compliance, and strategic; and reputation.

**Self-identified:** In the context of an MRA, a significant unresolved concern that the bank initially discovered is labeled as self-identified. In the context of a violation of law or regulation, the board or management is aware of the violation and documented and disclosed the violation to the OCC before or during the examination.

**Significant OCC-supervised affiliate:** A significant OCC-supervised affiliate has assets of \$1 billion or more.

**Smaller OCC-supervised affiliate:** A smaller OCC-supervised affiliate has assets of less than \$1 billion.

**Special purpose bank:** A special purpose bank generally offers a small number of products, targets a limited customer base, incorporates nontraditional elements, or has a narrowly targeted business plan.

**Streamlined ROE:** The ROE format for community banks that have a composite rating of 1 or 2 and have been in operation for three or more years.

**Supervisory activities:** The various examination and supervision activities that are conducted throughout a bank's supervisory cycle, which are the means of achieving supervisory objectives that are outlined in the OCC's supervisory strategy for a bank. In the supervisory strategy, each activity must be linked to at least one objective.

**Supervisory cycle:** The required frequency of the required full-scope, on-site examination.

**Supervisory objectives:** A component of the supervisory strategy that defines the goals of supervision for the specific bank, based on its risk profile. Supervisory objectives are the foundation for supervisory activities and work plans.

**Supervisory strategy:** The OCC's detailed supervisory plan for each bank that outlines supervisory objectives, supervisory activities, and work plans.

**Supplemental pages:** ROE pages that should be included only if they are necessary to address supervisory activities pertinent to the bank or to support examination conclusions. There is no prescribed format for these pages, and they can be interspersed among optional core pages.

**Target examination:** An examination that does not fulfill all of the requirements of the statutory full-scope, on-site examination, but may fulfill a portion of the requirements. Target examinations may focus on one particular product (e.g., credit cards), function (e.g., audit), or risk (e.g., operational risk) or may cover specialty areas (e.g., municipal securities dealers).

**Trust bank:** A type of special purpose bank that limits its services to fiduciary powers and incidental activities. Many trust banks are not insured by the FDIC, and FDIC insurance is not a requirement for certain national bank trust bank charters. All trust-only FSAs are FDIC-insured. A national trust bank is exempt from the definition of "bank" in the Bank Holding Company Act, provided the trust bank meets certain conditions. The definition of "savings and loan holding company" excludes a company that controls an FSA that functions solely in a trust or fiduciary capacity. Accordingly, some trust banks are independent, stand-alone entities, while others are subsidiaries of, or affiliated with, commercial banks, bank holding companies, savings and loan holding companies, financial service companies, or other business enterprises.

**Verification procedures:** Examination procedures designed to guide verification of the existence or proper recordation of assets or liabilities, or test the reliability of financial records.

**Violation:** A term used to collectively describe violations of laws, regulations, final agency orders, conditions imposed in writing, or written agreements.

**Violation of law or regulation:** An act (or failure to act) that deviates from, or fails to comply with, a statutory or regulatory requirement. Violations are often the result of deficient practices.

**Work plans:** A component of the supervisory strategy. Work plans describe how supervisory objectives will be achieved. Work plans outline the scope, timing, and resources needed to meet the supervisory objectives and activities.

## Appendix D: Abbreviations

(Appendix updated in version 1.1)

ADC	assistant deputy comptroller
AML	anti-money laundering
AsDC	associate deputy comptroller
ALLL	allowance for loan and lease losses
BSA	Bank Secrecy Act
CAG	Customer Assistance Group
CAMELS	capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk
CC Rating System	Uniform Interagency Consumer Compliance Rating System
CEBA	Competitive Equality Banking Act
CFPB	Consumer Financial Protection Bureau
CFR	Code of Federal Regulations
CFTC	U.S. Commodity Futures Trading Commission
CMP	civil money penalty
CMS	compliance management system
CRA	Community Reinvestment Act
ECC	Examination Conclusions and Comments (page of the ROE)
EIC	examiner-in-charge
FBO	foreign banking organization
FDIC	Federal Deposit Insurance Corporation
Fed. Reg.	<i>Federal Register</i>
FEIC	functional examiner-in-charge
FFIEC	Federal Financial Institutions Examination Council
FinCEN	Financial Crimes Enforcement Network
FRA	functionally regulated affiliate
FSA	federal savings association
FTR	federal thrift regulator
GLBA	Gramm–Leach–Bliley Act
HMDA	Home Mortgage Disclosure Act
IAP	institution-affiliated party
ICERC	Interagency Country Exposure Review Committee
IMCR	Individual Minimum Capital Ratio
IT	information technology
ITC	information technology, trust, and consumer compliance
ITCC	information technology, trust, consumer compliance, and CRA
LBS	Large Bank Supervision
MCBS	Midsize and Community Bank Supervision
MRA	matter requiring attention
MSRB	Municipal Securities Rulemaking Board
NBE	national bank examiner
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control



OTS	Office of Thrift Supervision
PE	Performance Evaluation
PPM	Policies and Procedures Manual
QA	quality assurance
QC	quality control
QM	quality management
RAS	risk assessment system
RIA	registered investment adviser
ROCA	risk management, operational controls, compliance, and asset quality
ROE	report of examination
SAR	Suspicious Activity Report
SCRA	Servicemembers Civil Relief Act
SDLC	system development life cycle
SEC	U.S. Securities and Exchange Commission
SIDD	separately identified department or division
SNC	shared national credit
UFIRS	Uniform Financial Institutions Rating System
UITRS	Uniform Interagency Trust Rating System
URSIT	Uniform Rating System for Information Technology
USC	U.S. Code

# References

(Section updated in version 1.1)

## Laws

Laws			
Citation	Title	Topic	Applicability
12 USC 4b	Deputy Comptroller for the Supervision of Federal Savings Associations	FSAs	OCC
12 USC 481	Appointment of Examiners; Examinations of Member Banks, State Banks, and Trust Companies; Reports	Examination authority	National banks
12 USC 1463	Supervision of Federal Savings Associations	FSAs	FSAs
12 USC 1464	Federal Savings Associations	FSAs	FSAs
12 USC 1464(d)(7)	Regulatory Authority	Examination authority	Third-party service providers
12 USC 1467a(a)(1)(D)(ii)(II)	[none]	FSAs; holding companies	FSAs
12 USC 1467(h)	Additional Information	Examination authority	FSAs
12 USC 1468b	Powers of Examiners	Examination authority	FSAs
12 USC 1813(c)	Definitions Relating to Depository Institutions	Types of banks	National banks and FSAs
12 USC 1813(c)(3)	Institutions Included for Certain Purposes	Definition of insured depository institutions	Insured depository institutions. (12 USC 1813(c)(3) includes any uninsured branch or agency of a foreign bank or a commercial lending company owned or controlled by a foreign bank in the definition of "insured depository institution" for certain purposes).
12 USC 1818	Termination of Status as Insured Depository Institution	Enforcement actions	National banks and FSAs.  Refer to 12 USC 1813(c)(3) and 12 USC 1818(b)(5).

Laws			
Citation	Title	Topic	Applicability
12 USC 1818(b)(5)	[none]	Definition of insured depository institutions, applicability of 12 USC 1818	Insured depository institutions.  12 USC 1818(b)(5) applies 12 USC 1818 to any national banking association chartered by the OCC, including an uninsured association.
12 USC 1818(s)	Compliance With Monetary Transaction Recordkeeping and Report Requirements	BSA, ROE	National banks and FSAs.  Refer to 12 USC 1813(c)(3) and 12 USC 1818(b)(5).
12 USC 1818(s)(2)(B)	Exam Report Requirement	BSA	National banks and FSAs.  Refer to 12 USC 1813(c)(3) and 12 USC 1818(b)(5).
12 USC 1820(d)	Annual Onsite Examinations of All Insured Depository Institutions Required	Examination requirement	Insured depository institutions
12 USC 1820(d)(4)	18-Month Rule for Certain Small Institutions	Examination requirement	Insured depository institutions
12 USC 1820(d)(6)	Coordinated Examinations	Examination authority	Insured depository institutions
12 USC 1820(d)(7)	Separate Examinations Permitted	Examination authority	Insured depository institutions
12 USC 1820(i)	Flood Insurance Compliance by Insured Depository Institutions	Flood Disaster Protection Act	Insured depository institutions
12 USC 1828a	Prudential Safeguards	Functional regulation	National banks
12 USC 1831c	Assuring Consistent Oversight of Subsidiaries of Holding Companies	Functional regulation	National banks and FSAs
12 USC 1831c(f)	Coordination Among Appropriate Federal Banking Agencies	Functional regulation	National banks and FSAs
12 USC 1831v	Authority of State Insurance Regulator and Securities and Exchange Commission	Functional regulation	National banks and FSAs
12 USC 1831v(a)(1)	[none]	Functional regulation	National banks and FSAs

Laws			
Citation	Title	Topic	Applicability
12 USC 1831v(a)(2)	[none]	Functional regulation	National banks and FSAs
12 USC 1841(c)(1)	In General	Types of banks	National banks
12 USC 1841(c)(2)(D)	[none]	National trust banks	National trust banks
12 USC 1841(c)(2)(F)	[none]	CEBA credit card banks	CEBA credit card banks
12 USC 1844(c)	Reports and Examinations	Functional regulation	National banks and FSAs
12 USC 1844(c)(1)	Reports	Functional regulation	National banks and FSAs
12 USC 1844(c)(2)	Examinations	Functional regulation	National banks and FSAs
12 USC 1844(c)(3)	Capital	Functional regulation	National banks and FSAs
12 USC 1844(g)	Authority of State Insurance Regulator and Securities and Exchange Commission	Functional regulation	National banks and FSAs
12 USC 1867(c)	Services Performed by Contract or Otherwise	Examination authority	Third-party service providers
12 USC 2801–2810	Home Mortgage Disclosure	HMDA	National banks and FSAs
12 USC 2901–2908	Community Reinvestment Act	CRA	National banks and FSAs (refer to footnote 24 for exceptions)
12 USC 3105(c)	Foreign Bank Examinations and Reporting	Examination authority	Federal branches and agencies
12 USC 3105(c)(1)(C)	On-Site Examination	Examination authority	Federal branches and agencies
12 USC 3302(3)	Financial institution	Types of banks	National banks and FSAs
12 USC 5481 et seq.	Bureau of Consumer Financial Protection	CFPB	National banks and FSAs
12 USC 5481(12)	Enumerated Consumer Laws	CFPB	Insured depository institutions with total assets of more than \$10 billion
12 USC 5515	Supervision of Very Large Banks, Savings Associations, and Credit Unions	CFPB	Insured depository institutions with total assets of more than \$10 billion
15 USC 78o-4(c)(7)	Discipline of Municipal Securities Dealers; Censure; Suspension or Revocation of Registration; Other Sanctions; Investigations	Municipal securities dealers	Banks that engage in municipal securities dealer activities
18 USC 641	Public Money, Property or Records	Disclosure of non-public OCC information; conversion of U.S. government property	National banks, FSAs, and other entities or individuals in possession

Laws			
Citation	Title	Topic	Applicability
			of non-public OCC information
18 USC 1517	Obstructing Examination of Financial Institution	Examination authority	National banks and FSAs
42 USC 4003(a)(10)	Definitions Applicable to Flood Disaster Protection Act of 1973; Regulated Lending Institution	Flood Disaster Protection Act	National banks and FSAs
42 USC 4012a(f)	Civil Monetary Penalties for Failure to Require Flood Insurance or to Notify	Flood Disaster Protection Act	National banks and FSAs
50 USC 3901-4043	Servicemembers Civil Relief Act	SCRA	National banks and FSAs
52 USC 30118	Contributions or Expenditures by National Banks, Corporations, or Labor Organizations	Political contributions	National banks and FSAs. (Applicable to “[...] any national bank or any corporation authorized by authority of any law of Congress [...]” pursuant to 52 USC 30118(a)).

## Regulations

Regulations			
Citation	Title	Topic	Applicability
12 CFR 4	Organization and Functions, Availability and Release of Information, Contracting Outreach Program, Post-Employment Restrictions for Senior Examiners	Disclosure of non-public OCC information	National banks and FSAs
12 CFR 4.37(b)	Non-OCC Employees or Entities	Disclosure of non-public OCC information	National banks, FSAs, and other entities in possession of non-public OCC information
12 CFR 4.37(b)(2)	[none]	Disclosure of non-public OCC information	National banks; FSAs; holding companies; or any director, officer, or employee thereof
12 CFR 4.6	Frequency of Examination of National Banks and Federal Savings Associations	Examination requirement	National banks (except federal branches and agencies) and FSAs
12 CFR 4.6(c)	Authority to Conduct More Frequent Examinations	Examination requirement	National banks (except federal branches and agencies) and FSAs

Regulations			
Citation	Title	Topic	Applicability
12 CFR 4.7	Frequency of Examination of Federal Agencies and Branches	Examination requirement	Federal branches and agencies
12 CFR 4.7(c)	Authority to Conduct More Frequent Examinations	Examination requirement	Federal branches and agencies
12 CFR 5	Rules, Policies, and Procedures for Corporate Activities	Licensing activities	National banks and FSAs
12 CFR 5.51(c)(7)	Troubled Condition	Troubled condition	National banks and FSAs
12 CFR 6	Prompt Corrective Action	Capital	Insured depository institutions
12 CFR 6.4	Capital Measures and Capital Category Definition	Capital	Insured depository institutions
12 CFR 21.11(c)	SARs Required	BSA	National banks
12 CFR 25	Community Reinvestment Act and Interstate Deposit Production Regulations	CRA	National banks
12 CFR 25.11(c)(1)-(3)	Scope; General	CRA	National banks
12 CFR 25.27(f)(4)	Election If Satisfactory Goals Not Substantially Met	CRA	National banks
12 CFR 163.180(d)(3)	SARs Required	BSA	FSAs
12 CFR 195	Community Reinvestment	CRA	FSAs
12 CFR 195.11(c)(2)	Scope; General	CRA	FSAs
12 CFR 195.27(f)(4)	Election If Satisfactory Goals Not Substantially Met	CRA	FSAs
12 CFR 363	Annual Independent Audits and Reporting Requirements	Audit	Insured depository institutions with assets of \$500 million or more
12 CFR 1003	Home Mortgage Disclosure (Regulation C)	HMDA	National banks and FSAs

## Federal Register

Federal Register			
Reference	Title	Topic	Applicability
61 Fed. Reg. 67021–67029	Uniform Financial Institutions Rating System	CAMELS Rating System	National banks (except federal branches and agencies) and FSAs
63 Fed. Reg. 54704–54711	Uniform Interagency Trust Rating System	Trust Rating System	National banks and FSAs
64 Fed. Reg. 3109–3116	Uniform Rating System for Information Technology	IT Rating System	National banks, FSAs, and service providers

81 Fed. Reg. 79473	Uniform Interagency Consumer Compliance Rating System	Consumer Compliance Rating System	National banks and FSAs
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## Comptroller's Handbook

Applicable to national banks and FSAs unless otherwise specified.

- *Asset Management* series of booklets
- *Consumer Compliance* series of booklets
- “Community Bank Supervision”
- “Compliance Management Systems”
- “Concentrations of Credit”
- “Corporate and Risk Governance”
- “Country Risk Management”
- “Fair Lending
- “Federal Branches and Agencies Supervision”
- “Foreword”
- “Government Securities Act”
- “Internal and External Audits”
- “Internal Control Questionnaires/Verification Procedures”
- “Large Bank Supervision”
- “Municipal Securities Rulemaking Board Rules”
- “Rating Credit Risk”
- “Related Organizations” (national banks)
- “Retail Nondeposit Investment Products”
- “Servicemembers Civil Relief Act of 2003”

## OTS Examination Handbook

Applicable to FSAs.

- Section 380, “Transactions With Affiliates and Insiders”
- Section 730, “Related Organizations”

## Comptroller's Licensing Manual

Applicable to national banks and FSAs.

- “Charters”
- “Conversions to Federal Charter”
- “General Policies and Procedures”

## OCC Issuances

OCC issuances			
Reference	Title	Topic	Applicability
Banking Bulletin 93-38	Interagency Examination Coordination Guidelines	Examination process; interagency	National banks and FSAs
Examining Bulletin 93-7	Interagency Common Core Report of Examination	ROE	National banks and FSAs
OCC Bulletin 1997-14	Uniform Financial Institutions Rating System and Disclosure of Component Ratings: Questions and Answers	CAMELS rating system	National banks and FSAs
OCC Bulletin 1998-21	Shared National Credit Program: SNC Program Description and Guidelines	SNC examinations	National banks and FSAs
OCC Bulletin 2007-21	Supervision of National Trust Banks: Revised Guidance: Capital and Liquidity	Trust banks	Trust banks
OCC Bulletin 2007-31	Prohibition on Political Contributions by National Banks	Activities of national banks	National banks
OCC Bulletin 2009-8	Country Risk: Changes to the Interagency Country Exposure Review Committee Process	Country risk	National banks and FSAs
OCC Bulletin 2012-30	BSA/AML Compliance Examinations: Consideration of Findings in Uniform Rating and Risk Assessment Systems	BSA; CAMELS and ROCA rating systems	National banks and FSAs
OCC Bulletin 2013-15	Bank Appeals Process: Guidance for Bankers	Bank appeals	National banks and FSAs
OCC Bulletin 2013-29	Third-Party Relationships: Risk Management Guidance	Third-party risk management	National banks and FSAs
OCC Bulletin 2017-7	Third-Party Relationships: Supplemental Examination Procedures	Third-party risk management	National banks and FSAs
OCC Bulletin 2017-21	Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29	Third-party risk management	National banks and FSAs
OCC Bulletin 2017-43	New, Modified, or Expanded Bank Products and Services: Risk Management Principles	Risk management	National banks and FSAs
OCC Bulletin 2018-17	Community Reinvestment Act: Supervisory Policy and Processes for Community Reinvestment Act Performance Evaluations	CRA	National banks and FSAs subject to the CRA



OCC issuances			
Reference	Title	Topic	Applicability
OCC Bulletin 2018-23 <sup>106</sup>	Community Reinvestment Act: Revisions to Impact of Evidence of Discriminatory or Other Illegal Credit Practices on Community Reinvestment Act Ratings	CRA	National banks and FSAs subject to the CRA
OCC Bulletin 2018-41 <sup>107</sup>	OCC Enforcement Actions: OCC Enforcement Action Policies and Procedures Manuals	Enforcement actions, including CMPs	National banks and FSAs
OCC Bulletin 2019-39	Community Reinvestment Act: Guidelines for Requesting Approval of a Strategic Plan	CRA	National banks and FSAs
OCC Bulletin 2019-40	Community Reinvestment Act: Guidelines for Requesting Designation as a Wholesale, Limited Purpose, or Special Purpose Bank	CRA	National banks and FSAs
OCC News Release 2012-85	Agencies Sign Memorandum of Understanding on Supervisory Coordination	Consumer compliance, coordination with other regulators, CFPB	National banks and FSAs with assets greater than \$10 billion

## Other

- *A User's Guide for the Uniform Bank Performance Report*
- “An International Review of OCC’s Supervision of Large and Midsize Institutions,” conveyed by OCC News Release 2013-184, “OCC Releases International Peer Review of OCC Supervision of Large and Midsize Institutions”
- “Federal Regulatory Agencies’ Administrative Guidelines: Implementation of Interagency Programs for the Supervision of Technology Service Providers”
- *FFIEC BSA/AML Examination Manual*
- *FFIEC IT Examination Handbook*
- MSRB Rule G-16, “Periodic Compliance Examination”

<sup>106</sup> Attachment is PPM 5000-43, “Impact of Evidence of Discriminatory or Other Illegal Credit Practices on Community Reinvestment Act Ratings.”

<sup>107</sup> Attachments are PPM 5000-7, “Civil Money Penalties”; PPM 5310-3, “Bank Enforcement Actions and Related Matters”; and PPM 5310-13, “Institution-Affiliated Party Enforcement Actions and Related Matters.”

## Table of Updates Since Publication

Refer to the “Foreword” booklet of the *Comptroller’s Handbook* for more information regarding the OCC’s process for updating and revising *Comptroller’s Handbook* booklets.

Version 1.0: Published June 28, 2018			
Version number	Date	Reason	Affected pages
1.1	September 30, 2019	Clarified applicability to federal branches and agencies.	1
		Provided additional context regarding types of banks.	2
		Updated to reflect changes in the OCC’s organizational structure.	5–6, 18
		Updated asset size threshold for eligibility for the expanded supervisory cycle. Removed content regarding the Economic Growth, Regulatory Relief, and Consumer Protection Act (Pub. L. 115-174) in relation to the supervisory cycle.	12–13
		Edited for clarity.	15, 17, 26–27
		Reflected change from Bureau of Consumer Financial Protection (BCFP) to CFPB.	19, 36, 102, 112–113
		Updated for consistency with the “Internal and External Audits” booklet of the <i>Comptroller’s Handbook</i>	32
		Reflect revision of the OCC’s enforcement action policies.	49–52, 135–136
		Revised the OCC’s report of examination policy.	57–68
		Updated to reflect rescission of OCC Bulletin 2017-40, “Impact of Evidence of Discriminatory or Other Illegal Credit Practices on Community Reinvestment Act Ratings,” and replacement with OCC Bulletin 2018-23.	114
		Added references to OCC Bulletin 2019-39 and 2019-40.	114–115
		Added information regarding examiner access to banks’ books and records. Incorporated content from OCC Bulletin 2016-13, “Communications Technology: Guidance for Banks’ Maintenance of Records, Records Retention, and Examiner Access,” which was rescinded with the publication of this booklet.	132
		Updated appendix D, “Abbreviations,” for consistency with the content of the booklet.	140–141
		Updated “References” section for consistency with the content of the booklet.	142–149