FEDERAL RESERVE BANK *of* KANSAS CITY

May 31, 2012

Statement to Clarify Supervisory Expectations for Stress Testing by Community Banks

Attention: **Chief Executive Officer of Each Tenth District State Member Bank, Bank Holding Company and Savings and Loan Holding Company with $10 Billion or Less In Total Consolidated Assets**

Subject: Stress Testing by Banking Organizations with $10 Billion or Less in Total Consolidated Assets

In Brief: The three federal banking agencies issued a joint statement on May 14, 2012, to clarify expectations for stress testing by community banks – banks, savings associations, and bank and savings and loan holding companies with $10 billion or less in total assets.

Highlights: The agencies understand that initiatives for larger organizations are raising some questions on the part of community bankers regarding supervisory expectations for stress testing by community banks. These initiatives applicable to larger organizations include the issuance of the capital plan rule, proposed rules relating to stress testing requirements under the Dodd-Frank Act, and final supervisory guidance on stress testing for banking organizations with more than $10 billion in total consolidated assets.

Community banks are not required or expected to conduct the types of stress testing specifically articulated in the initiatives pertaining to larger organizations. However, the agencies continue to emphasize that all banking organizations, regardless of size, should have the capacity to analyze the potential impact of adverse outcomes on their financial condition. Certain portions of existing interagency guidance applicable to all banking organizations discuss addressing potential adverse outcomes as part of sound risk management practices. The agencies note that such existing guidance, including that covering interest rate risk management, commercial real estate concentrations, and funding and liquidity management (among others), continues to apply.

Further Information: Questions regarding the statement may be directed to Nancy Fitzgerald at (816) 881-6847 or (800) 333-1010, extension 16847.

Internet: A copy of the statement is available on the Federal Reserve Board of Governors' Web site at: http://www.federalreserve.gov/newsevents/press/bcreg/20120514b.htm

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency

Statement to Clarify Supervisory Expectations for Stress Testing by Community Banks

May 14, 2012

This statement is intended to provide clarification of supervisory expectations for stress testing by community banks.[1] The Federal Reserve Board (Board), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of Currency (OCC) (collectively, the agencies) have recently undertaken several initiatives relating to stress testing at larger banking organizations, including the issuance of the capital plan rule,[2] proposed rules relating to stress testing requirements under the Dodd-Frank Act,[3] and final supervisory guidance on stress testing for banking organizations with more than $10 billion in total consolidated assets.[4] The agencies understand that these initiatives for larger organizations are raising some questions on the part of community bankers regarding supervisory expectations for stress testing by community banks.

Community banks are not required or expected to conduct the types of stress testing specifically articulated in the initiatives noted above, which are directed at larger organizations. In particular, community banks are not required or expected to conduct the enterprise-wide stress tests required of larger organizations under the capital plan rule, the proposed rules implementing Dodd-Frank Act stress testing requirements, or as described in the stress testing guidance for organizations with more than $10 billion in total consolidated assets.

The agencies continue to emphasize that all banking organizations, regardless of size, should have the capacity to analyze the potential impact of adverse outcomes on their financial condition. Certain portions of existing interagency guidance applicable to all banking organizations discuss addressing potential adverse outcomes as part of sound risk management practices. The agencies note that such existing guidance, including that covering interest rate risk management, commercial real estate concentrations, and funding and liquidity management (among others), continues to apply.

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[1] For the purposes of this statement, community banks are defined as banks, savings associations, bank holding companies, and savings and loan holding companies with $10 billion or less in total assets.
[2] See 12 CFR part 225.8 and http://www.gpo.gov/fdsys/pkg/FR-2011-12-01/pdf/2011-30665.pdf.
[3] See http://www.gpo.gov/fdsys/pkg/FR-2012-01-05/pdf/2011-33364.pdf for the Board's proposed rule; http://www.fdic.gov/regulations/laws/federal/2012/2012-01-23_proposed-rule.pdf for the FDIC's proposed rule; and http://www.occ.gov/news-issuances/news-releases/2012/nr-occ-2012-10.html for the OCC's proposed rule.
[4] See http://www.federalreserve.gov/newsevents/press/bcreg/20120514a.htm