



FEDERAL RESERVE BANK of KANSAS CITY

December 10, 2013

Community Bank Risk-focused Consumer Compliance Supervision Program and Consumer Compliance and Community Reinvestment Act (CRA) Frequency Policy

To the Chief Executive Officer of Each Tenth District State Member Bank, Bank Holding Company, and Savings and Loan Holding Company:

On November 18, 2013, the Federal Reserve announced its new *Community Bank Risk-Focused Consumer Compliance Supervision Program* for state member banks with consolidated assets of \$10 billion or less and their subsidiaries (community banking organizations). The new program is designed to promote strong compliance risk management practices and consumer protection at state member community banks. The program provides a framework that outlines the following five standard processes that examiners will follow in ensuring consistent and effective supervision of Federal Reserve-supervised institutions:

- Understanding the Institution
- Assessing the Institution's Risk
- Examination Scoping and Planning
- Examination Work
- Ongoing Supervision

Additionally, the Federal Reserve announced revisions to its examination frequency policy. The revisions are designed to ensure that examination resources are appropriately directed to institutions commensurate with the institution's asset size and the effectiveness of its consumer compliance risk management program in today's financial landscape.

The adoption of the new program and examination frequency policy are effective January 1, 2014. A copy of CA 13-19, CA 13-20, and the letters' corresponding attachments is available on the Federal Reserve Board of Governors' web site at <http://www.federalreserve.gov/bankinforeg/caletters/caltr1319.htm> and <http://www.federalreserve.gov/bankinforeg/caletters/caltr1320.htm>, respectively.

Please direct any questions concerning the guidance to the Consumer Affairs Department of the Federal Reserve Bank of Kansas City at (800) 333-1010, extension 881-2488, or via email at linda.painter@kc.frb.org.

Sincerely,

Michael R. Steckline
Assistant Vice President



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

SANDRA F. BRAUNSTEIN
DIRECTOR
DIVISION OF CONSUMER
AND COMMUNITY AFFAIRS

CA 13-19

November 18, 2013

**TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS
SECTIONS:**

SUBJECT: Community Bank Risk-Focused Consumer Compliance Supervision Program

Applicability to Community Banking Organizations: This guidance applies to the supervision of community banking organizations, defined as institutions supervised by the Federal Reserve with total consolidated assets of \$10 billion or less.

Effective January 1, 2014, the Federal Reserve is adopting the attached *Community Bank Risk-Focused Consumer Compliance Supervision Program* ("Program") for state member banks with consolidated assets of \$10 billion or less and their subsidiaries (community banking organizations). The new program is designed to promote strong compliance risk management practices and consumer protection at state member community banks. Under the updated program, consumer compliance examiners will base the examination intensity more explicitly on the individual financial institution's risk profile, including its consumer compliance culture and how effectively it identifies and manages consumer compliance risk. We expect that the new program will enhance the efficacy of our supervision program and reduce regulatory burden on many community banking organizations.

The Program provides an enhanced risk assessment process based on current information about a financial institution's products and services, as well as related legal and regulatory factors, the environment in which the institution operates, and its compliance risk management practices. Through the risk assessment process, examiners will gain an understanding of a financial institution's compliance culture; its processes for identifying, measuring, monitoring, and controlling risks; its practices regarding the treatment of consumers; and the potential for consumer harm. Based on the level of residual risk identified in the risk assessment process, a customized work program will be developed that includes examination activities consistent with the size, complexity, and risk profile of the institution's products, services, and business lines.

The Program also incorporates ongoing supervision, typically a supervisory contact close to the mid-cycle between consumer compliance examinations. However, in some cases when the institution's risk profile is high or it changes materially as a result of the addition of more complex or higher-risk strategies, more frequent contacts may be appropriate. Ongoing supervision is intended to identify and, if necessary, address significant changes in the

institution's compliance risk management program or in the level of consumer compliance risk present and ensure that supervisory information is up to date.

Please see the *Community Bank Risk-Focused Consumer Compliance Supervision Program Executive Summary* for an overview of the program and the *Community Bank Risk-Focused Consumer Compliance Supervision Program* document for the complete program. This Program replaces the *Risk-Focused Consumer Compliance Supervision Program* (CA 03-13) for state member community banks.

Please distribute this letter and its attachments to Federal Reserve-supervised community banking organizations, supervisory staff, and examiners.

Questions on this letter and the new program should be directed to Carol Evans, Assistant Director, at (202) 452-2051; Cathy Gates, Senior Project Manager, at 202-452-2099; or Lanette Meister, Senior Supervisory Consumer Financial Services Analyst, at (202) 452-2705 in the Division of Consumer and Community Affairs. In addition, questions may be sent via the Board's public website.¹

Sincerely,



Attachments:

- *Community Bank Risk-Focused Consumer Compliance Supervision Program*
- *Community Bank Risk-Focused Consumer Compliance Supervision Program Executive Summary*

Supersedes:

- CA 03-13 "Risk-Focused Consumer Compliance Supervision Program"
- CA 01-4 "Alternative Fair Lending Examination Procedures"

¹ See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>.



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OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

SANDRA F. BRAUNSTEIN
DIRECTOR
DIVISION OF CONSUMER
AND COMMUNITY AFFAIRS

CA 13-20

November 18, 2013

**TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS
SECTIONS:**

**SUBJECT: Consumer Compliance and Community Reinvestment Act (CRA) Examination
Frequency Policy**

Applicability to Community Banking Organizations: This guidance applies to all institutions supervised by the Federal Reserve, including institutions with total consolidated assets of \$10 billion or less.

This letter transmits a revised policy for the mandated frequency of (1) consumer compliance and Community Reinvestment Act (CRA) examinations of state member banks and (2) assessments of non-state member bank entities regulated by the Federal Reserve¹ to determine whether these entities are subject to consumer protection laws and regulations and must be examined. This policy will be effective on January 1, 2014.

The Federal Reserve's examination frequency policy is being updated to ensure that examination resources are appropriately directed to institutions commensurate with the institution's asset size and the effectiveness of its consumer compliance risk management program in today's financial landscape.

We understand that during the transition to the new examination frequency schedule, Reserve Banks may need to make adjustments to the mandated examination dates for some institutions. Reserve Banks should review the schedule and submit examination mandate waivers to their Board Division of Consumer & Community Affairs Oversight Analyst for approval as a group.

¹ U.S. Offices (Branch and Agency) of Foreign Banks, Edge Act Corporations, Article XII New York Investment Companies, Agreement Corporations, and Non-Deposit Trust Companies regulated by the Federal Reserve.

Please distribute this letter and the attachment to Federal Reserve-supervised institutions, supervisory staff, and examiners. Questions on this letter and the new program should be directed to Carol Evans, Assistant Director, at (202) 452-2051; Cathy Gates, Senior Project Manager, at 202-452-2099; or Lanette Meister, Senior Supervisory Consumer Financial Services Analyst, at (202) 452-2705 in the Division of Consumer and Community Affairs. In addition, questions may be sent via the Board's public website.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sandra Braucher".

Attachment: Consumer Compliance and Community Reinvestment Act Examination Mandates
Supersedes: CA 03-12 Examination and Interim Monitoring Event Frequency