



Bank Exams Tailored To Risk - An Update

by [Steve Brown](#) Topics: [regulatory](#), [compliance](#), [risk management](#)

Summary: The Fed issued a regulatory letter recently that advised its examiners to use new Bank Exams Tailored to Risk (BETR) metrics in determining how deep to probe a community or regional bank. Could this help your financial institution?

It has been our experience over the decades that the typical bank exam is about 3 weeks long and involves about 15 to 20 examiners. Regulation is part of the fabric of the banking system and bankers often tell us quietly that exams can be a burden, but most also readily agree it is just part of the whole process of being a bank. For community banks at least, the Fed is now looking to reduce some of that burden for state member community banks under new guidelines for bank examiners.

The [Fed issued a regulatory letter](#) in June that advised its examiners to use new Bank Exams Tailored to Risk (BETR) metrics in determining how deep to probe a community or regional bank. These surveillance metrics are a subset of the "outlier metrics" introduced in a previous regulatory letter issued in 2015. The process applies to banks with <\$100B in assets, but community banks could be some of the biggest beneficiaries.

The metrics will guide examiners in evaluating which activities at a given bank are low-risk, which are moderate, and which are high risk. A more streamlined approach will then be applied to low-risk activities, while the most intense examination efforts will focus on high-risk activities.

Community banks, which tend to be less complicated institutions and involved in less complex and risky activities, could see real benefits from this approach.

Of course, this shouldn't be viewed by anyone as getting a pass on rigorous risk management. Rather, the change is more of a reward for banks that demonstrate sound and effective risk controls. If all goes as planned, a bank that does not take undue risks and does good work controlling its risk profile, should spend less time, effort and expense responding to examiners. That, in fact, is what bank deregulation should be about: removing unduly burdensome regulation for banks that are already doing a good job managing their operations.

BETR represents an enhanced way of determining a bank's risk profile using a series of surveillance metrics to analyze data on credit, capital, earnings, liquidity, market, and securities risks. Over time, additional surveillance metrics are expected to be added. The surveillance metrics are then combined with the examiner's judgement to determine which level of risk is in play for each topic at a given bank - high, moderate or low. The coveted low risk category is the prize for good work.

The risk levels are intended to be regularly reviewed and updated by examiners. A bank with low-risk activities can find itself suddenly moved up to high risk if it lets its guard down or makes certain mistakes, or conditions shift perhaps.

Of course, the whole system depends on the skill and experience of the examiners who make the ultimate determination of risk levels. But the surveillance metrics should provide plenty of data points to help examiners make good calls.

If it works out as planned, banks that spend enough time and effort on risk management should be rewarded with less time and effort spent responding to exams and more time serving customers.

ECONOMY & RATES

Rates As Of: 08/26/2019 12:59PM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.98	-0.09	-0.38
6M	1.88	-0.18	-0.59
1Y	1.75	-0.24	-0.85
2Y	1.54	-0.33	-0.95
5Y	1.42	-0.41	-1.09
10Y	1.54	-0.48	-1.15
30Y	2.04	-0.49	-0.98
FF Market	FF Target	Fed Disc	
2.12	2.25	2.75	
SOFR	Prime	Unemp	
2.10	5.25	3.70	

[More Market Rates](#)

BANK NEWS

Powell Speaks

Fed Chair Powell said the Fed will act as appropriate to sustain the economic expansion and that there are no recent precedents to guide policy response in the current situation. He also indicated the Fed remains vigilant, will do what it can to sustain the expansion and adjust policy to promote their objectives.

Other Fed Speakers

1) Fed St. Louis President Bullard said he supports the Fed taking out insurance with a rate cut because they could always take it back later. He pointed to actions the Fed took in 1998 to prevent weakness from overseas impacting US growth as a good model (3 rate cuts) to look to. **2)** Fed Kansas City President George said the economy is in a good place and the Fed's large balance sheet (\$3.8T) could be putting downward pressure on longer rates. She also said she does not see the US getting sucked into the global trend of negative yielding government bonds.

More Fed

1) Fed Dallas President Harker said he has an open mind about reducing rates in coming months if needed, and noted that since the FF rate is above Treasury yields across the curve that it's possible monetary policy is tighter than he would have thought 3 or 4 months ago. **2)** Cleveland Fed President Mester said that while the economy remains strong and probably does not need another rate cut, she is very attuned to the downside risks and is monitoring data for signs of weaker growth. **3)** San Francisco Fed President Daly said it was correct to cut rates in July to "see our economic expansion continue - not because I see an impending downturn on the horizon."

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