This spring has brought renewed optimism for the economic outlook. Vaccination rates are increasing, and infection rates are waning. It feels like we are returning to some form of normalcy in our personal and professional lives. Businesses are reopening, travel and leisure activities have resumed, and students are returning to in-person education. In May, I had the privilege of speaking to bank examiners from across the country at the Federal Reserve’s annual community bank examiner conference. At this virtual conference, I discussed the Federal Reserve’s supervisory and regulatory priorities for post-pandemic supervision. Since our examiners are the first line of communication with many state member banks, I will share with you the key points of my message to this group and, specifically, the four important principles of bank supervision.

Core Principles of Bank Supervision

Balanced Supervision and Regulation
The first principle is that we must ensure supervision and regulation remain balanced. Regulation should always strike the right balance between actions that promote safety and soundness by the regulator and actions that promote an acceptable and manageable level of risk-taking by the bank. We should be cognizant of the risks faced by community banks and tailor our supervisory response accordingly. Therefore, in setting and implementing supervisory policy, we need to avoid imposing on smaller institutions standards that are designed to control the risks posed by the activities of larger institutions.

Effective, but Efficient, Regulatory Framework
The second principle is that community bank supervision and regulation must be effective and efficient. That means regulations need to strike the right balance between the safety and soundness of banks and the compliance costs, burdens, and risks banks face.

Accordingly, you will hear more about our efforts to evaluate our regulations, both current and proposed, from a cost-benefit-analysis perspective and to apply these principles to our examination decisions and determinations.

A prime example of this principle is the interim final rule (IFR) to provide temporary regulatory relief to community
banking organizations resulting from unanticipated asset growth in 2020 and 2021. As you know, our supervisory practices include asset-based thresholds, which are designed, in part, to appropriately calibrate regulatory requirements to a banking organization’s asset size and risk profile.

As a result of the response to the pandemic, including participation in the Small Business Administration’s Paycheck Protection Program and stimulus payments received by individuals, the balance sheets of some community banking organizations grew unexpectedly during 2020 and 2021. Consequently, some institutions were facing new regulatory requirements based on their unanticipated asset growth.

The IFR, supported by the prudential regulators, provided temporary regulatory relief to community banking organizations to address the consequences of this unanticipated asset growth. The IFR also provides community banking organizations with a temporary safe harbor and gives them time to decide how to manage the growth — including whether that approach is to reduce deposits or to prepare for additional regulatory and reporting standards. In any case, asset growth during this time period will not trigger new regulatory requirements, including reporting requirements, until January 1, 2022, at the earliest.

Consistent, Transparent, and Fair Supervision and Regulation
The third core principle is that supervisory expectations should be clear and transparent to a community bank. Therefore, as supervisors we need to be available to answer bankers’ questions, particularly as they relate to supervisory expectations or findings.

This principle promotes respect and trust between regulators and supervised institutions. It also increases the likelihood that banks will communicate throughout the examination cycle to share and discuss changes they may be considering or challenges they may be facing. With open lines of communication, supervisors and bank management can mutually agree to an appropriate resolution of a supervisory concern that promotes the bank’s safety and soundness, while also considering the cost and risks to the bank.

Legitimate, Not Punitive, Prudential Purpose
A final core principle is that our rules and supervisory judgments must have a legitimate prudential purpose, and in the majority of cases must not be solely punitive. Banks are providing essential services. Therefore, we need to provide a framework that supports community banks in their efforts to serve their customers and communities. Community banks also have to be ready and positioned for the future, and we should assist them as best we can within our supervisory framework.

Post-Pandemic Supervision
In mid-June 2020, as operational conditions had begun to stabilize, the Federal Reserve resumed community bank examination activities offsite, and we continue to evaluate our ability to conduct onsite examinations. Many bankers are wondering what future examinations will look like.

The Federal Reserve has begun to assess post-pandemic supervisory practices. As you know, we adopted a number of policy statements to guide our supervision during the pandemic. We are in the process of evaluating these policies to see if we struck the right balance in assessing a bank’s condition while using an efficient and flexible supervisory approach. It is also a good opportunity to consider the lessons learned from our approach and determine what aspects we might want to retain for the future. In light of our experience during the pandemic, and to further reduce the burden and disruption of an examination on a bank, we are reevaluating which parts of an examination can be conducted offsite and which examination activities would benefit from an in-person discussion with bankers.

As the Federal Reserve plans a path forward, risk-focused examinations supplemented by continuous monitoring will be key to helping us identify trends and risks. One reason that banks have been able to withstand the stress and uncertainty of the pandemic conditions is the strength of their capital and liquidity positions going into the pandemic. Community banks’ tier 1 leverage ratios
remain relatively robust as of year-end 2020 but have been affected by deposit-driven asset growth. Our ongoing supervisory efforts will continue to proactively monitor the implications from the rapid and unexpected deposit growth and emphasize the importance of community banks’ capital and liquidity resiliency in the near term.

The flexibility we afforded to our institutions during the pandemic should remain. The key message is that examiners should not criticize bank management for taking prudent steps to support their communities and customers, but they do need to be aware of risks to their portfolios and appropriately manage them.

As we move forward in assessing and adapting our supervisory practices, I look forward to maintaining an open dialogue with bankers to receive feedback on what worked well and what has not worked well over the past year.

In closing, I would like to express my appreciation for your efforts and dedication to serving the banking needs of your communities during the pandemic. This spring does give us a renewed hope for a brighter future. I will continue my engagement with community banks in 2021 and look forward to learning about how the Federal Reserve can continue to support the community banking industry.
Like many of you, I continue to work from my home office as I've done since March 16, 2020. Though many of us quickly mobilized and adapted to a work-from-home posture, I hadn’t imagined myself signing on to my laptop in my dining room for more than a year. The Federal Reserve Bank of Richmond continues to plan for a gradual return to the office, and I find myself wondering what the new normal will look like — and which trends and new practices will become business as usual.

At the Richmond Reserve Bank, we have been thinking through how we retain the best of what’s happened this past year while also preserving pre-pandemic practices that were working well. Some of the challenges of working through these thorny issues are well captured by Richmond Reserve Bank President Tom Barkin in his speech, “The Future ‘Hybrid’ Office”:

“Most firms are exploring a more flexible ‘hybrid’ model that combines in-person and remote work. On the surface, it should work — after all, we already knew how to operate in person, and now we know how to manage virtually. But combining them presents a whole new set of questions.”

For the Richmond Reserve Bank and for banking organizations, those questions involve the delicate balance of executing on business objectives, serving our communities, and carrying out our day-to-day routines. Together our organizations also want to leverage technology investments and strengths acquired during the pandemic, while trying to retain and build on each of our organization’s individual identities and cultures.

As we address culture, I must acknowledge that the pandemic has also highlighted immense societal challenges we collectively face, such as those stemming from systemic racism. These important issues have stimulated conversations at the Richmond Reserve Bank that have in turn broadened our understanding of these issues. In doing so, we are leveraging both data and qualitative information to better support America’s economy. Across the Federal Reserve System and the banking industry, we need to evolve our strategies and actions to address diversity, equity, and inclusion — and make that a part of our new normal.

In It Together

Having engaged with bankers around the Fifth District, which covers Virginia, the Carolinas, Maryland, the District of Columbia, and much of West Virginia, I sense that the COVID-19 crisis feels similar to both bankers and supervisors. Since we are facing many of the same challenges in our work and in our personal lives, we feel that we’re in this together.

Bankers and supervisors both responded to the needs of their stakeholders with agility and innovative thinking. As just one of many examples, in December 2020, the Richmond Reserve Bank converted its annual Community Bankers Forum to a virtual format. As part of our event, a panel of community banking executives discussed their strategies for navigating the public health crisis, each

1 The speech is available at www.richmondfed.org/press_room/speeches/thomas_i_barkin/2021/barkin_20210201.
focusing on how people in their organizations stepped up to help however necessary. Like the panelists, I witnessed many examples of people at the Federal Reserve getting involved in work that was different than their normal assigned tasks. Though no one had a playbook for an extended global pandemic, community banking organizations and regulators alike have displayed inspiring agility and resiliency in serving their customers, managing risks, and navigating economic and health uncertainties over the past 16 months.

Operational Resiliency

Fortunately, the banking industry entered 2020 from a position of financial strength. As a result, the Fifth District’s financial institutions withstood the effect from increased credit provisions and were able to extend credit through facilitating customers’ drawdowns of credit lines and supporting programs like the Paycheck Protection Program (PPP), all while dealing with a challenging interest rate environment.

Firms swiftly implemented business continuity plans at the pandemic’s onset. Most institutions in the Fifth District sent a large percentage of their employees to work remotely with little lead time. In general, these banks successfully navigated the challenges of continuing to serve customers in the largely virtual environment — providing access to traditionally in-person banking services through appointment-only meetings, extending drive-through hours, more fully leveraging interactive teller machines, and speeding up plans to offer digital banking services.

Significantly, all hands were on deck at many Fifth District community banking organizations for the PPP rollout and subsequent rounds of new funding. This meant balancing core work responsibilities while processing new loan applications in support of one of the largest small business lending programs in our nation’s history. The success of the program is primarily due to the agility and commitment of bank employees wearing many different hats.

Likewise, our examination teams began their new remote work arrangements with only a few days’ notice. Examinations that were underway and typically held onsite were completed remotely. With our colleagues around the Federal Reserve System, we paused planned examination events for about three months at Federal Reserve–supervised community and regional-sized firms so that banks could focus on supporting their customers. Some of our examination staff were redeployed to support the large banking organization supervision teams. Others pivoted to an offsite monitoring approach with periodic outreach to institutions and analysis of institution-specific and portfolio-level trends. Our Fifth District Focus webinar series, which presents content on top banking risks and hot topics, focused on key takeaways gleaned from this work and the rapid flow of supervisory guidance released during the first half of 2020.

We have been conducting examinations virtually since July 2020. Our current examination approach has been tailored to focus on financial and operational resiliency as well as a bank’s approach to working with borrowers amid the pandemic. Similarly, the Richmond Reserve Bank, like the other Reserve Banks, has shown flexibility by supporting key pandemic-related programs with staff from across the Bank. For instance, individuals from the Enterprise Risk Management and Audit units helped to support the Federal Reserve’s PPP Liquidity Facility (PPPLF), a liquidity source offered through the Federal Reserve’s discount window that is collateralized by PPP loans. In addition to our work on the PPP and PPPLF, we have been collaborating with key partners around the Richmond Reserve Bank, particularly those involved in research, community development, and external engagement, to better understand regional conditions and the economic effect of the pandemic on communities in the Fifth District. Leveraging our technology tools, we have been able to increase our connections with business and community leaders in our District. Our connections increased to more than 1,000 in 2020 from 400 in 2019.

As Fifth District institutions have opted to reopen physical branch locations in varying degrees, employee and customer safety is front and center in the design and implementation of daily opening and closing procedures. Banks are taking steps to account for social distancing requirements, to maintain their offices with increased
cleaning, and to refine their business continuity and contingency planning processes. These plans have also incorporated alternate workplace arrangements, such as split-work sites, working from home, and rotating shifts for all employees on a regular basis. One institution went as far as identifying cleaning services for each of its 30 locations in the event of a branch-specific virus outbreak. Contingency planning is not limited to branches and physical space. It also focuses on how consumer preferences may have permanently changed as a result of the widespread adoption of digital banking services during the pandemic.

Banks have leveraged operational resiliency to demonstrate innovation and ingenuity. Both prior to and during the pandemic, banks were making investments, oftentimes through partnerships with third parties including fintech firms, to drive innovation that aligns with strategic goals and greater profitability. Digital banking and application program interface solutions have become increasingly popular as have regulatory technology services such as those addressing compliance and Fair Lending analysis, as well as Bank Secrecy Act and anti-money laundering considerations.

Again, the PPP provides a useful case study showing how Fifth District financial institutions, like those across the nation, quickly innovated to meet customers’ needs. Over the course of the pandemic, a Fifth District bank that is a national leader in Small Business Administration lending automated some of the manual work associated with the PPP. The innovative technology solutions allowed the bank to originate a high volume of PPP loans. Other banks adapted by utilizing vendor-provided software to support PPP loan originations and the loan forgiveness process.

### Amplified Risk

With ingenuity and innovation comes the need for increased focus on the evolving risk profile that results. From a risk management perspective, technology investments and partnerships like those that have been described typically gravitate toward two specific areas: cybersecurity and third-party risk management.

### Cybersecurity

The security of Federal Reserve–supervised financial institutions’ sensitive information continues to be a System-wide top priority in the face of heightened risk because of the pandemic. Cyberattacks have become more sophisticated and persistent, which makes implementing, maintaining, and updating controls more difficult.

One risk factor stems from balancing the needs of the customer against combatting the increasing threats to information security given the continuously evolving technologies and the amount of data shared between vendors and financial institutions. Additional layering of risks during the pandemic results from increased cybercriminal activity, such as preying on consumers as they grapple with difficulties stemming from COVID-19 and fraudulently applying for financial aid programs. Another layered risk factor is the significant migration toward remote access in the pandemic environment, which presents opportunities for criminals to exploit financial institutions’ remote systems and customer-facing processes.

Cybercriminals and malicious state actors are targeting vulnerabilities in remote applications and virtual environments to steal sensitive information, compromise financial activity, and disrupt business operations. Cybercriminals are increasing their exploitation of social engineering vulnerabilities as well as looking for weaknesses in critical infrastructure. Fifth District-supervised institutions have noted digital manipulation of identity documentation, especially related to employment/unemployment and medical data. Further, fraudsters are taking advantage of compromised credentials across multiple bank accounts.

### Third-Party Risk Management

The pandemic has highlighted the importance of third-party arrangements to a bank’s operational resilience and created new challenges in risk management. Meeting the needs of their customers, shifting their workforces to a remote posture, and operationalizing new programs such as the PPP required banks to expand and, in some cases, find new and unexpected vendor relationships.

Continued on page 18
Community Banks and the Fed: Working Together

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Community banks and the Federal Reserve have a long-standing relationship through the Fed’s supervision and regulation activities, joint community development initiatives, and other important partnerships. The Federal Reserve values the role that community banks play within their local communities and the broader economy, often looking to community bankers for their input to help inform policy and for their service on Reserve Bank boards of directors and Federal Reserve System advisory committees. Through all of these efforts, community bankers’ intimate knowledge of consumer and community needs provides key insights for regulators and policymakers.

This article discusses some of the ways that community banks and the Federal Reserve have partnered over the years as well as recent initiatives the Federal Reserve has employed to better support community banks.

Ways Community Banks Provide Insight

Participating on Advisory Committees

One way that community bankers provide insights to the Federal Reserve is through their participation on advisory committees, which serve as forums for community bankers and the Board of Governors (Board) or Reserve Bank staff to have informative conversations about emerging issues. One of these committees is the national Community Depository Institutions Advisory Council (CDIAC), which was established by the Board in 2010 to “provide input to the Board on the economy, lending conditions, and other issues of interest to community depository institutions.” Each Reserve Bank also has a local CDIAC made up of representatives from commercial banks, thrift institutions, and credit unions who provide insights and advice to Reserve Bank leadership. Biannually, one representative from each Reserve Bank’s local CDIAC meets with the Board to continue conversations at the national level. Through these engagements, local bankers can inform Board members about matters that are of interest to them. Recently, for example, a discussion about a Bank Secrecy Act/anti-money laundering matter that surfaced during a CDIAC meeting was brought to the attention of Board members who took the conversation into consideration when crafting supervisory guidance, demonstrating how CDIAC conversations can help policymakers.2

In addition to the CDIAC, Reserve Bank staffs convene committees based on individual Reserve Bank priorities, such as diversity, equity, and inclusion; community development; and the overall economy. Many of these committees have representation from community bankers and other business leaders. For example, the Federal Reserve Bank of Philadelphia’s Economic and Community Advisory Council has business leaders from both the private and public sectors to allow for a broad range of perspectives and enhanced collaboration.3 Discussion topics can range from updates on local and national market conditions to feedback on proposed Reserve Bank initiatives. These local advisory committees are mutually beneficial: Community bankers and business leaders are able to share their experiences, and Federal Reserve staff have opportunities to hear firsthand about emerging concerns within their Districts.

1 For an overview of the CDIAC, visit www.federalreserve.gov/aboutthefed/cdiac.htm.


Partnering on Community Development Initiatives

Local community development functions within each Reserve Bank provide another opportunity for Reserve Banks to work closely with community banks. The goal of community development is to promote economic growth and financial stability for low- and moderate-income (LMI) communities and individuals. Key focus areas include housing and neighborhood revitalization, small businesses and entrepreneurship, employment and workforce development, and community development finance. Partnerships between local Reserve Banks and community banks can lead to the creation of programs that meet a critical need within communities and can allow bankers to further develop relationships with the communities they serve.

In addition to partnering with community bankers on community development initiatives, the Federal Reserve oversees state member banks' compliance with the Community Reinvestment Act (CRA). Feedback from bankers and community members made it clear that CRA regulations needed to be strengthened to better align with the CRA statute. External stakeholders also sought clearer evaluation standards from federal regulators. In September 2020, the Board issued an Advanced Notice of Proposed Rulemaking (ANPR) seeking public comment on modernizing the regulations that implement the CRA. The ANPR includes proposals aimed at addressing inequities in credit access and access to banking services for LMI and other underserved communities, thereby increasing financial inclusion for all communities. The ANPR also aims to provide more certainty about what types of activities qualify for CRA credit and the locations where these activities will qualify, increase transparency in how performance is evaluated and how ratings are assigned, and tailor the evaluation framework and data collection and reporting requirements based on bank size and business strategy. In addition, the proposal recognizes the need to update the regulation to reflect the changes that have happened in the banking industry over time.

Federal Reserve staff conducted 51 listening sessions with external stakeholders, including community bankers, in late 2020 and early 2021 to discuss the key objectives and policy proposals in the ANPR and to encourage organizations to submit comment letters with their feedback. The ANPR is a prime example of how feedback from external stakeholders, community needs, and public comment can come together to enhance the Federal Reserve’s supervision and regulation practices.

Additional Ways the Fed Engages Community Banks

Exploring Emerging Issues

The Federal Reserve also aims to stay apprised of emerging issues for community banks by encouraging research on these issues. Community bankers often support research efforts by providing data and participating in conferences, such as the annual Community Banking in the 21st Century research and policy conference. Recently, the Federal Reserve has begun to focus on innovation and launched a series of “office hours” to facilitate discussions with bankers and answer questions outside of the supervisory process. These office hours, along with standing annual research conferences and forums, demonstrate how community bankers and Federal Reserve staff are able to learn about emerging issues from one another.

In addition to researching and fostering conversations around emerging issues, the Federal Reserve continues to explore ways to be more responsive to community banks. In late 2020, the Federal Reserve developed a System-wide outreach community of practice, which is intended to provide a common framework for leveraging supervisory outreach activities across the Federal Reserve System.

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5 Refer to the Board’s September 21, 2020, press release at www.federalreserve.gov/newsevents/pressreleases/bcreg20200921a.htm. Comments on the ANPR were due on February 16, 2021, and staff are now completing a review of these comment letters.

6 The annual Community Banking in the 21st Century research and policy conference — sponsored by the Federal Reserve System, the Conference of State Bank Supervisors, and the Federal Deposit Insurance Corporation — brings together community bankers, academics, policymakers, and bank regulators to discuss the latest research on community banking. Read more at www.communitybanking.org/.

7 To read more about the Innovation Office Hours Series, see www.federalreserve.gov/aboutthefed/innovation-office-hours-series.htm.
Board and Reserve Bank staff who are collaborating on this initiative are in the process of proposing helpful events and additional resources for community bankers, including a technical assistance program that will support both bankers and state supervisors.

**Offering Local Supervision and Outreach**

Although the Federal Reserve is the central bank of the United States, the 12 Reserve Bank Districts located throughout the country allow supervisory teams to focus and specialize on regional issues. This approach allows examination teams and analysts to better understand the unique market conditions, geographic distinctions, and needs within communities, which are all considered during supervisory events. Additionally, the local work and understanding of individual communities help inform national efforts and policy discussions.

The localized structure also allows Reserve Bank staff to have more in-person meetings with various stakeholders of a financial institution. Community banks have business models that emphasize relationship building with consumers, and, in turn, Reserve Bank staff aim to build and maintain relationships with community bankers. To that end, Reserve Banks often host outreach events that allow for in-person engagement activities between Reserve Bank and community bank leaders. Similar to the advisory committees, outreach events provide yet another opportunity for community bankers to provide input to Reserve Bank staff.

Federal Reserve outreach has both a local and national focus. For example, Governor Michelle W. Bowman, the first member of the Board of Governors to fill the community bank seat created by Congress, recently began an effort to have one-on-one phone conversations with leaders of state member banks across the nation. These personal interactions are important to maintaining and fostering the Federal Reserve’s relationships with financial institutions, as Reserve Bank staff want to serve as a resource for bankers’ questions and concerns. Governor Bowman’s individual phone calls, in addition to webinars such as Ask the Fed and Outlook Live, are other examples of methods the Federal Reserve uses to understand the challenges and issues that bankers face. The Federal Reserve also provides resources on some of these challenges by publishing resourceful articles within *Community Banking Connections* and *Consumer Compliance Outlook*.

**Using Risk-Focused Supervision**

Over the years, the Federal Reserve has aimed to employ risk-focused supervision to reduce unnecessary regulatory burden on supervised institutions, including community banks. In conjunction with existing risk-focused supervisory practices, the Federal Reserve began implementing the Bank Exams Tailored to Risk (BETR) program in 2019 for community and regional state member banks. The BETR program focuses on the most important risks faced by banks and uses a data-driven approach to measure these risks and tailor subsequent examination procedures accordingly. This approach allows the Federal Reserve to apply more streamlined examination work programs to banks with lower-risk profiles, meaning fewer hours are spent on the examination. Additionally, supervisory teams are often able to conduct their work offsite, reducing the amount of time spent onsite at an institution.

Consumer compliance examinations are also conducted using a risk-focused approach, as consumer compliance examiners base examination activities on an assessment of an institution’s residual risk. This assessment balances the risks inherent in the bank’s operations.

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8 The Board of Governors delegates supervision and regulation activities to the Reserve Banks, including conducting examinations and inspections.

9 Due to the COVID-19 pandemic, formerly in-person outreach events have shifted to virtual offerings.

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12 Due to the COVID-19 crisis, examination activity has been conducted fully offsite since June 2020.

13 This approach 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, and is detailed in Consumer Affairs (CA) letter 13-19, “Community Bank Risk-Focused Consumer Compliance Supervision Program,” available at www.federalreserve.gov/supervisionreg/caletters/caltr1319.htm.
and environment with the strength of the bank’s risk management controls. Through careful pre-examination risk assessments, the Federal Reserve can ensure that consumer compliance examination activities focus on the areas of highest risk for each individual institution, which thereby reduces onsite examination time and burden on banks and enhances the efficacy of the supervision program.

In addition to conducting risk-focused examinations, the Federal Reserve emphasizes risk management and controls during safety and soundness examinations and inspections, as these are often critical areas in which management wants to receive feedback. This approach allows supervisory teams to provide assessments on the current conditions of financial institutions while also considering how they can remain well positioned in the future. The emphasis on risk management and controls has also helped community bankers prioritize their own risk management practices. By conducting risk-focused examinations and emphasizing risk management and controls, the Federal Reserve has aimed to strike a balance between reducing unnecessary burden on community bankers and ensuring that bankers are prepared to operate safe and sound institutions.

During the COVID-19 pandemic, the Federal Reserve made several temporary changes to supervisory, regulatory, and reporting practices to better support and reduce unnecessary burden for financial institutions, especially for community banking organizations. For example, the Federal Reserve issued examiner guidance in June 2020 to promote flexibility in supervisory practices for institutions and borrowers affected by the pandemic. The federal bank regulatory agencies also recognized that due to participation in federal coronavirus response programs, many community banking organizations experienced size increases that could subject them to new regulations or reporting requirements. To address the situation, the federal bank regulatory agencies announced an interim final rule that generally gives community banking organizations until 2022 to “reduce their size or prepare for new regulatory or reporting standards.” This emphasis on flexibility and monitoring also allowed for increased conversations with management teams at supervisory institutions about the risks and challenges they were facing during the pandemic. In addition to conversations at the Reserve Bank level, the Federal Reserve hosted 42 Ask the Fed sessions related to the pandemic and the Federal Reserve’s response to the pandemic, a large increase in the number of Ask the Fed sessions from previous years.

**Conclusion**

Community banks and the communities they serve continue to be of critical importance to the Federal Reserve. Community banks are integral to the Fed’s supervisory program and vital to its understanding of local and national economies and conditions. The Federal Reserve aims to remain responsive to the evolving landscape for community banks through risk-focused and forward-looking supervisory programs. By continuing to focus attention on economic recovery from the COVID-19 pandemic and risk management in the banking sector, the Federal Reserve will continue to foster conversations about emerging issues within the community bank industry and the communities that they serve, enhance communications and outreach at all levels of the organization, and employ forward-looking, risk-focused supervision.

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14 From March to June 2020, the Federal Reserve implemented a pause in examinations. This pause allowed supervisory teams to focus on outreach and monitoring efforts to support financial institutions, including understanding the risks associated with the economic environment during the pandemic. See the Board’s press release “Supervisory and Regulatory Actions and Response to COVID-19,” available at www.federalreserve.gov/supervisory-regulatory-action-response-covid-19.htm.

Banking industry regulators consider proactive succession planning and management a key governance tool in promoting a bank’s resilience in difficult times. Competent succession planning addresses the evolution of a bank’s business strategy in the context of its management structure. Therefore, succession management is the implementation and maintenance of a plan that should reflect a thoughtful distribution of roles, responsibilities, and approval authority for a management team. Regardless of the degree of formality, an effective succession management program is composed of the primary components of dynamic planning and diligent ongoing management. However, when management succession plans are neglected, organizations are often unprepared for the loss of key employees.

While turnover is inevitable, unexpected occurrences can instill uncertainty and turmoil in any management team, particularly if a succession program is dormant. Thus, when a key member of management leaves, the bank is more reactive than proactive in addressing the staff vacancy. Proactive preparation is essential in effectively managing staffing vacancies. An active succession planning process, which includes a deliberate development and cross-training focus, is the foundation for successfully addressing both planned and unexpected staffing changes. In many cases, operational disruptions arising from the loss of any one individual are mitigated as much as possible when there is already a successor identified or when a bank has existing “bench strength” and staff is prepared to assume the day-to-day management responsibilities, even on an interim basis.

In the banking sector, the importance of identifying, developing, and maintaining qualified management is supported by several industry trends in the composition of community bank management teams. Bank Director magazine’s 2019 Compensation Survey of bank executives and directors conducted by Compensation Advisors in Newtown, PA, noted that, among the respondents,

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**Figure 1: Banks with Identified Successors for CEO**

![Figure 1: Banks with Identified Successors for CEO](image)


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CEOs have a median age of 58 and about one-quarter of community banks (i.e., banks with assets totaling $10 billion or less) projected their CEOs would leave, through retirement or otherwise, over the next two years. Meanwhile, as denoted in Figure 1, over 40 percent of the respondents did not have a successor or potential successors for the CEO role or were unsure if any had been identified.

At smaller banks, the depth of talent readily available in-house for key management positions is typically limited. In contrast, larger banks usually have a deeper talent pool to consider for successors. More formal processes to identify development needs and prepare candidates for various leadership roles are appropriate for all banks, but to what extent depends on the asset size, complexity, and culture of each institution. Community banks regularly face strong competition for skilled, experienced staff who are committed to the community bank business model. Tools

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such as relevant training programs and compensation strategies are typically needed to attract and retain staffing capable of fulfilling leadership roles. Commitment to a development program should align with a bank’s long-term business strategy and demonstrate to staff that the board of directors and management are committed to developing in-house talent. When properly crafted and communicated, proactive succession planning also helps a bank retain key employees.

Maintaining competent leadership at community banks often goes beyond the confines of the institution into its leadership role in its market footprint. Interactions with local businesses and municipalities may lead to business prospects for a bank and provide opportunities to connect with the local community to better understand market conditions and the community’s banking needs and, in turn, contribute leadership to the community. Of course, there is an additional supervisory benefit, as contributions such as leadership in community enrichment and development efforts are relevant factors when assessing the degree of compliance with the Community Reinvestment Act. At the 2019 Community Banking in the 21st Century research and policy conference, Federal Reserve Governor Michelle W. Bowman stressed the systemic importance of community banks to their local communities. She noted that “it is critical that we work together to find ways to preserve the benefits provided to communities by well-managed, strong financial institutions that are deeply grounded in the areas they serve — including the communities that they expand or merge into.”

The Federal Reserve’s interests are aligned with state member banks to develop and maintain competent bank leadership. This article provides a brief overview of succession planning, including useful supervisory guidance, the benefits of such planning, and related banking practices observed by Federal Reserve examiners.

Supervisory Perspective
Supervisory guidance highlights the importance of competent management in implementing prudent risk management practices that identify, measure, monitor, and control current and evolving risks. These practices help an organization navigate changing business conditions and shifting organizational directions. Supervisors evaluate the depth of risk management relative to an organization’s risk profile, which, in turn, informs their supervisory focus. Effective risk management is a major factor that examiners consider in assigning satisfactory supervisory ratings. Accordingly, human capital is an integral part of risk management and strategic planning, and to be effective, succession planning and management is vital to the process.

As noted in the Federal Deposit Insurance Corporation (FDIC) Supervisory Insights publication, “even the smallest community banks can find ways to motivate employees and expand and diversify their skills through cross-training, serving on committees or special projects, attending conferences, and coaching and mentoring relationships.”

To facilitate the continuity of a bank’s board of directors, the Comptroller’s Handbook: Corporate and Risk Governance by the Office of the Comptroller of the Currency (OCC) encourages the use of tenure policies to guide the retirement or replacement of directors through elements such as term limits and a mandatory retirement age to better anticipate the timing of leadership changes.

When assessing the appropriateness of leadership at any banking organization, Federal Reserve examiners operate under a basic mantra: Does leadership exhibit relevant experience, display sustained competence, and demonstrate a high level of integrity? Each of these

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factors is meaningful when determining the effectiveness of succession planning as well as its importance in the overall supervisory assessment of management.

Challenges of Succession Planning
The benefits of a well-crafted succession plan are subtle but impactful. Smooth transitions of leadership, greater flexibility, and overall readiness to accommodate unexpected industry, economic, strategic, and personnel changes are invaluable. Proactive plans with a focus on employee development foster engagement and support recruiting efforts. Therefore, leadership development is a critical component of an effective succession plan to transition an organization through the disruption arising from employee turnover.

Conversely, a lack of preparation for management turnover, whether expected or unexpected, can lead to naming a successor who lacks the requisite commitment, expertise, demeanor, or cultural fit to properly execute the duties of the position. During a period of turnover, a bank’s staff could even be distracted from the day-to-day business of managing the bank and thus potentially compromise the integrity of the internal control environment.

Practically, busy schedules and full board meetings can relegate succession planning to a lower priority. Because cultivating future management does take time, a board should assign greater urgency to planning and development efforts. From a leadership perspective, the potential negative ramifications of inactivity can be the greater motivator to ensure that succession plans are current. When succession plans do not address the bank’s current business strategy and staffing resources, the board and management may be unprepared for a key employee’s departure, which could stifle success in both the near and long term.

Developing a management succession plan can be challenging. For example, shifting local workforce dynamics and demographics can be big obstacles to finding and retaining qualified candidates. Due to the sensitive nature of management succession discussions, board and senior management will need to consider the legal and ethical concerns that may arise. Finally, because quite a few community banks are closely held family-owned organizations, the need for succession planning may be more urgent as senior leadership nears retirement and the next generation is uninterested in assuming a leadership role at the bank.

Responsibilities and Methods
Management succession planning is essentially a risk management tool designed to minimize the adverse effects of a change in leadership. A bank can craft a useful succession plan by considering the elements of the Federal Reserve’s risk management framework. The four elements of sound risk management are board of directors and senior management oversight; policies, procedures, and limits; risk monitoring and management information systems (MIS); and internal controls and independent review. The significance of “tone from the top” is paramount for employees to observe the board’s and management’s commitment to a sound risk management framework and succession planning to facilitate business continuity.

As effective succession planning supports viability and continuity of operations, a plan should be developed, maintained, and endorsed by the bank’s board of directors and senior management. Assuring the bank has competent leadership is one of the main responsibilities of any director, with the board ultimately responsible for ensuring “that senior management is fully capable of implementing the institution’s business strategies and risk limits.” In this manner, a board and senior management would coordinate the succession program with the

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9 See Basics for Bank Directors, a publication issued by the Federal Reserve Bank of Kansas City, Division of Supervision and Risk Management, available at www.kansascityfed.org/banking/basics-bank-directors/.

10 See SR letter 16-11, Attachment.
strategic plan, business direction, and culture to establish actionable steps to identify and develop successor candidates. As highlighted in Figure 2, succession planning is a multilayered process involving a concerted assessment of the bank’s needs relative to resource and skill gaps, and an intentional focus on developing successor candidates, while promoting accountability through ongoing evaluation.

An established succession program helps ensure that the intentions of board and senior management are clearly communicated when appropriate, especially in times of tumult, while still mindful of confidentiality considerations. Building a succession strategy aligned with the strategic plan and centered in staff development supports business goals and promotes flexibility. A candidate pool for the various key management positions should reflect the use of a skill assessment mechanism to determine each individual’s readiness for a leadership position. As part of this process, a candidate’s strengths are identified to reinforce or complement organizational strengths or to address recognized organizational weaknesses. Skill sets are cultivated to account for a candidate’s lack of experience as well as to take advantage of recognized strategic opportunities or confront external threats.

Based on regular and discreet discussions, a bank’s board of directors can evaluate the management and staffing structure by summarizing ongoing reviews that measure achievements and professional growth toward established milestones and goals. Such discussions should be kept confidential given the sensitivity of the information. Access to independent sources such as consultants or trade organizations can provide an objective perspective on plans and strategies, staff skill sets, or even competitive compensation structures. Attention to the succession plan throughout the development, execution, and maintenance processes is stressed because, as noted in Supervisory Insights, “a well-designed plan may still fail if its implementation is inadequate.”

Recruitment and retention are tied to whether employees believe that their professional potential is being developed and used in the best possible way. Opportunities for leadership development throughout an organization can be a powerful incentive to join or stay with any company. Rewards and opportunities for community bankers, especially in rural areas or smaller markets, typically differ from those at larger banks, but incentives that balance risk and financial results are essential to maintain the integrity of any organization. For example, aggressive employee bonus programs tied solely to loan growth fail to emphasize the importance of credit quality, and, in turn, a bank is rewarding employees on only one performance factor, which could lead to extending loans that do not adhere to proper underwriting standards.

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The Diversity Paradigm

A bank’s succession plan should consider the positive impact of diversity in its leadership team on the organization. According to the Diversity of Thought study conducted by global executive search firm Heidrick & Struggles, surveying more than 230 senior board members from the top 400 publicly listed companies, 97 percent of high-ranking executives believe that diversity of thought is among the most important goals when leading successful companies. When determining the optimal composition of leadership, it is appropriate to be wary of “groupthink,” which characterizes how members of a leadership team with similar backgrounds tend to align in thought and gravitate to the same strategies. Team diversity slows the progression to groupthink by providing more capacity for alternative viewpoints. As noted in Figure 3, linking diversity to growth strategy ensures that value drivers are enabled and initiatives are properly prioritized, as a diverse group will more likely reevaluate information and remain even-handed.

Research conducted by McKinsey & Company has confirmed a correlation between financial performance and executive teams with gender, ethnic, and cultural diversity. Organizations in the top quartile for gender-diverse executive teams were 21 percent more likely to outperform on profitability and 27 percent more likely to have superior value creation. Organizations in the top quartile for ethnically and culturally diverse executive teams were 33 percent more likely to have industry-leading profitability. Organizations in the bottom quartile for both gender and ethnic/cultural diversity were 29 percent

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16 “A value driver is an activity or capability that adds worth to a product, service, or brand. More specifically, a value driver refers to those activities or capabilities that add profitability, reduce risk, and promote growth in accordance with strategic goals.” See “Value Driver,” Whatis.com, available at https://whatis.techtarget.com/search/query?q=value+driver.

less likely to achieve above-average profitability than all other organizations in the data set. The real challenge for any workplace is to acknowledge the business sense of embracing the core philosophy of diversity. Ultimately, management teams infused with diverse backgrounds and credentials have the ingredients for spurring robust discussion, considering innovation, and ensuring thorough decision-making.18

**Observed Practices**

Management succession practices vary, depending on each institution’s asset size and complexity, risk profile and appetite, business model, culture, management talent, and other operational considerations. In discussions with banks supervised by the Federal Reserve, various practices were highlighted as effective, such as identifying employee development needs and opportunities, establishing clear job descriptions, and requesting prospective retirement timing from directors and senior management to reduce transition ambiguity. Larger community banks use additional tracking reports to identify multiple levels of candidates, skill rankings, and readiness time frames. Institutions of differing asset size also indicated that employing outside consultants to facilitate strategic planning discussions provides an independent perspective on succession tactics.

During the examination process, examiners noted that many community banks have been transparent about advancement opportunities for employees and customized development plans and established milestones to provide a career path. Some banks had clearly articulated criteria for board of directors and senior management composition, including guidance to foster diversity initiatives and underscore the importance of professional integrity. Some banks employ a personnel “depth chart” to designate interim leadership when needed as well as a “playbook” listing self-projected retirements and other foreseeable events that would result in management turnover. Bank-owned life insurance has been employed as a supplemental succession tool to offset loss and expected transition costs associated with a death of a key executive while still providing an earning asset. Banks have also accessed banking trade associations, local colleges, and other venues for identifying potential leadership candidates, while using pre-employment screening criteria to vet outside candidates.

Of course, these practices may not be “best fits” to fulfill the specific needs of every bank. However, these examples may be considered to create and maintain a tailored management succession program. Both examiners and bankers stress the importance of institutional integrity and reputation by maintaining proper staffing as the cornerstone of a bank’s standing in the local community.

**Conclusion**

Community bank directors, particularly those in small towns and rural areas, often comment that hiring and retaining key officers, as well as prospective successors, can be very challenging. Given the importance of maintaining qualified leadership, any significant disruption can have negative ramifications on a bank. Hence, a management succession program that is a living document nimble enough to readjust in a timely fashion to address personnel, economic, and strategic planning is an appropriate risk management tool.

Management is responsible not only for day-to-day operations of the bank and the quality of its assets but also for planning for the future. Since a direct relationship exists between the overall condition of a bank and the capability of management, the first priority for any examiner when evaluating the condition of a bank is to make an accurate appraisal of the management team. This supervisory assessment should include an understanding of the board of directors’ plans to provide for future bank leadership.

Effective succession planning and management is crucial to the ongoing viability of any organization. To reiterate Governor Bowman’s stance on the contribution of community banks, “One factor is the vital leadership and supporting role many small banks play in their communities. While that benefit may be hard to measure, I think it is essential that researchers try to do so. Communities need leaders and institutions that are deeply rooted in their cities, towns, and rural areas. Strong relationships and extensive experience are not easily replaced.”19

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For a number of years, bankers, economists, researchers, and policymakers have discussed the performance of the community banking sector in comparison with larger bank peers. These discussions have only increased as changes in technology, banking, and overall economic conditions have added new dimensions to market competition. In 2016, then Federal Reserve Governor (and current Chair of the Federal Reserve) Jerome H. Powell remarked that there is “optimism about the future relevance and importance of community banks while simultaneously raising concerns about the viability of the very smallest banking organizations.” Recognizing the contrast within his statement, he continued his speech with an exploration of changes in the community banking sector and an analysis of both community bank growth and decline.

Several staff members within the Federal Reserve System were tasked with analyzing how the community bank model has continued to evolve since then Governor Powell offered his thoughts on the state of community banking in the United States back in 2016. To evaluate how community banks have responded to changes within their external environment, the team considered five key trends: competition, economic conditions, changes in rural banking, regulation, and technology. Research conclusions were outlined as potential implications for community banks as well as implications for supervisors to consider.

These conclusions will be outlined in more depth within a series of articles beginning with the Third Issue 2021 of Community Banking Connections.

Despite a nearly 50 percent decline in the overall number of community bank charters since 2000, the research team found that, overall, the relationship banking model that underpins community banking still provides significant value and benefits to both urban and rural communities across the United States. Community bankers generally have intimate knowledge of their communities and local business conditions, which allows them to adapt quickly to evolving circumstances to meet the needs of their customers, particularly in times of economic stress and uncertainty. This was made increasingly evident through community banks’ quick and positive response to the COVID-19 crisis. Specifically, the strength of the relationships between community banks and their customers enabled banks to quickly implement the Small Business Administration’s Paycheck Protection Program and tailor other products and services to meet the most pressing needs in their communities during the uncertain period in the early phases of the pandemic.

Although the relationship banking model remains strong, the research team did find that the competitive environment has changed significantly over the past 20 years. The competitive landscape now comprises — in addition to other community banks, large and regional banks, and credit unions — a number of new nonbank entrants, including fintech firms. Community banks are adapting to the changing environment by increasing their digital presence, increasing digital product and service offerings, and exploring partnerships to embrace technological change. However, when considering challenges for community banks, research indicated that, crises notwithstanding, community banks are losing their core strength in relationship banking as customers are prioritizing speed and flexibility. As community banks explore technology as a means to compete, existing
contracts with core service providers can hamper their ability to integrate new technologies into their business models. The study also noted that smaller community banks are disproportionately impacted by regulatory compliance costs. Additionally, many community banks continue to serve rural communities and face succession and talent acquisition challenges due to aging and migrating populations.

It is important that regulators and community bankers address the opportunities and challenges facing community banks to inform discussions and potential policy decisions. Regulators and community bankers regularly explore these implications through ongoing conversations that take place during the supervisory process. In addition, the Federal Reserve has a number of activities outside of the routine bank examination process that support ongoing dialogue between the banking and regulatory industries, such as the Community Depository Institutions Advisory Council, the Federal Advisory Council, and various research and policy symposia and conferences held each year. The research and ideas that will be presented in this series are meant to inform these ongoing conversations and spark innovative thinking around the most significant challenges facing community banks.


Embracing Agility and Innovation During the Pandemic and the New Normal

As institutions increase the number and complexity of these relationships, they must consider the risk implications to their critical operations and core business lines. An effective process to analyze, measure, and control risks associated with third-party arrangements, especially vendors with access to sensitive information, is critical. Increased monitoring of where customer data are stored and the number of individuals and vendors with access to these data is also crucial.

**Strength of Community Banks**

Over the course of the pandemic, I’ve heard numerous stories about the lengths to which community banks have gone to support their communities. A team member who is assisting in the PPPLF efforts spotted a window sign at a local business thanking one of our state member banks for helping to keep all the employees of the business on the payroll.

These are the types of stories that underscore the value of the community banking model and why the Federal Reserve System is committed to supporting responsible innovation. As Governor Michelle W. Bowman pointed out in her speech “Empowering Community Banks” at the Conference for Community Bankers in February, “These relationships are the hallmark of community banking, and as we look toward the future, community banks will continue to play an essential role in supporting customers, delivering financial services, and providing resources to their communities and customers.”

As we navigate the new normal, I believe that the Federal Reserve and community banks need to work together to promote technological innovation that will enable bankers to mitigate risks and to meet the banking needs of their customers and communities. I look forward to a continued dialogue with bankers as we face these challenges together.

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2 The text of Governor Bowman’s speech is available at www.federalreserve.gov/newsevents/speech/bowman20200210a.htm.
Meet a Cohort Member

The past several issues of Community Banking Connections have featured profiles of members of the publication’s Writers’ Cohort, which was formed in 2019. In this issue, Kalyn Neal discusses how her deep agricultural roots have helped her in her career at the Kansas City Fed, how the pandemic spurred her to take up a new sport, and what’s currently on her reading list.

Kalyn Neal
Examiner/Supervisory Specialist, Examinations & Inspections, FRB Kansas City

Examiner/Supervisory Specialist, Examinations & Inspections, FRB Kansas City

was not initially on my radar, but after talking to an examiner at a career fair, I decided to apply for a job as an examiner. Coming out of graduate school, I had degrees in agricultural business and economics, with prior internships as an agricultural commodity trader. I got my love of agriculture from my grandparents who run a wheat and cattle operation in northwest Oklahoma. They are in their mid-80s and are still active on the farm. Although I wasn’t exactly sure how I was going to use my agricultural knowledge at the Reserve Bank, I enthusiastically accepted the job offer. Over time, I’ve been able to leverage that knowledge and help banks develop risk management practices in support of their agricultural lending portfolios.

How have you been keeping busy since the pandemic started?
Since the pandemic hit, I’ve taken up golf as a hobby. Initially, it was a good way to stay active and get out of the house, but the more I’ve played, the more I’ve become hooked. I would still classify my game as “bad to very bad,” but every now and then I hit a nice shot or sink a long putt and that is really satisfying. I’ll never make the LPGA, but golf has definitely turned into a hobby that will last me a lifetime.

Have you had time to read? What is your favorite book?
My favorite book is A Wrinkle in Time by Madeleine
L’Engle. I first read this book when I was about 12 years old, and it single-handedly cultivated a love of reading that I have to this day. I can’t pinpoint what exactly it was about this book, but after reading it, I was hooked. I know the book was recently made into a movie, but I haven’t seen it. I don’t think the movie received great reviews, and I didn’t want it to change the way that I feel about the book.

I continue to be a voracious reader and am always reading at least one book and often even two. I’ve had to come to terms with the fact that my “to be read” pile is unconquerable, but that doesn’t stop me from adding to it when I see a book that strikes my interest! Current residents in the “to be read” pile include *Letters from a Stoic* by Lucius Annaeus Seneca and *Boom Town* by Sam Anderson, which is a story about the history of my hometown of Oklahoma City.

**Any last words?**

Sure. Feel free to send any book recommendations my way!
These are highlights of the regulatory and policy actions taken by the Federal Reserve since the last edition. “D.C. Updates” also includes a listing of speeches and congressional testimonies of the Federal Reserve Board members that may be of interest to community bankers. For a list of Federal Reserve or interagency rulemakings and statements related to the pandemic, visit the Federal Reserve’s COVID-19 Resources page, available at www.federalreserve.gov/covid-19.htm.

**ACTIONS**

**Interagency Statement on Model Risk Management:** On April 9, 2021, the Federal Reserve and the other federal banking agencies issued an interagency statement to address how the risk management principles described in the “Supervisory Guidance on Model Risk Management” relate to systems or models used by banks to assist in complying with the requirements of Bank Secrecy Act/anti-money laundering (BSA/AML) laws and regulations. The joint statement provides the risk management principles that a bank may wish to consider in a model supporting a bank’s compliance with the BSA/AML statutory and regulatory requirements. Supervision and Regulation (SR) letter 21-8, “Interagency Statement on Model Risk Management for Bank Systems Supporting Bank Secrecy Act/Anti-Money Laundering Compliance,” is available at www.federalreserve.gov/supervisionreg/srletters/SR2108.htm.

**Final Rule for Use of Supervisory Guidance:** The Federal Reserve Board adopted a new rule outlining and confirming the use of supervisory guidance by Federal Reserve examiners in the examination of regulated institutions. Unlike a law or regulation, supervisory guidance does not have the force and effect of law. Therefore, this new rule reaffirms supervisory practices that the Federal Reserve does not take enforcement actions based on supervisory guidance. This new rule generally codifies a statement issued in September 2018 and is substantially similar to the proposal issued last year. The March 31, 2021, press release is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20210331a.htm.

**LIBOR Transition Plans:** On March 9, 2021, SR letter 21-7, “Assessing Supervised Institutions’ Plans to Transition Away from the Use of the LIBOR,” was issued to assist examiners in assessing supervised firms’ progress in preparing for the transition from the London Interbank Offered Rate (LIBOR) to an alternative reference rate in their LIBOR-based financial products and contracts. The SR letter is available at www.federalreserve.gov/supervisionreg/srletters/SR2107.htm.

**Interim Final Rule Supporting Investment in Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs):** Federal bank regulatory agencies announced an interim final rule that supports the Treasury Department’s implementation of the Emergency Capital Investment Program, established by Congress to make capital investments in MDIs and CDFIs. Under the program, Treasury will purchase preferred stock or subordinated debt from qualifying MDIs and CDFIs. The corresponding dividend for the stock or interest rate for the debt is based on the institution meeting lending targets. To facilitate implementation of this program, the agencies are also revising their capital rules to provide that these Treasury investments qualify as regulatory capital of insured depository institutions and holding companies. The March 9, 2021, press release is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20210309a.htm.

**Partnership for Progress Update:** On March 5, 2021, SR letter 21-6/Community Affairs (CA) letter 21-4, “Highlighting the Federal Reserve System’s Partnership for Progress Program for Minority Depository Institutions and Women’s Depository Institutions,” was revised to clarify that the Federal Reserve System separately defines minority depository institutions and women’s depository institutions.
institutions. Further, the letter noted that all such entities are eligible to access resources under the Federal Reserve System’s Partnership for Progress program. The SR letter is available at www.federalreserve.gov/supervisionreg/srletters/SR2106.htm.

**Bank Secrecy Act/Anti-Money Laundering Examination Manual Update:** On February 26, 2021, the members of the Federal Financial Institutions Examination Council released several updated sections and related examination procedures to the *Bank Secrecy Act/Anti-Money Laundering Examination Manual*. The new and revised sections included:

- Assessing Compliance with Bank Secrecy Act Regulatory Requirements *(New)*
- Customer Identification Program
- Currency Transaction Reporting
- Transactions of Exempt Persons


**Inactive or Revised SR Letters:** On February 26, 2021, SR letter 21-4/CA letter 21-2, “Inactive or Revised SR Letters Related to the Federal Reserve’s Supervisory Expectations for a Firm’s Boards of Directors,” was issued to present the results of the Federal Reserve’s review of supervisory expectations for boards of directors of bank and savings and loan holding companies. This letter explains which existing Supervision and Regulation and Consumer Affairs letters had to be revised or were made inactive as a result of the issuance of SR letter 21-3/CA letter 21-1, “Supervisory Guidance on Board of Directors’ Effectiveness,” for firms with total consolidated assets of $100 billion or more. The SR letter is available at www.federalreserve.gov/supervisionreg/srletters/SR2104.htm.

**Actions Related to Consumer Policy**


**Suspension of Regulation D Exam Procedures:** On March 29, 2021, CA letter 21-6, “Suspension of Regulation D Examination Procedures,” was issued in response to the 2020 changes to Regulation D (Reserve Requirements of Depository Institutions). The CA letter is available at www.federalreserve.gov/supervisionreg/caletters/caltr2106.htm.

**CRA Frequently Asked Questions (FAQs):** On March 5, 2021, CA Letter 21-5, “Community Reinvestment Act (CRA) Consideration for Activities in Response to the Coronavirus,” was issued to supplement previously issued FAQs. The CA letter is available at www.federalreserve.gov/supervisionreg/caletters/caltr2105.htm.

**Other Board Actions and Events**

**Community Advisory Council Applications:** The Federal Reserve Board is accepting applications from individuals who wish to be considered for membership on the Board’s Community Advisory Council. The council was formed in 2015 and advises the Board on issues affecting consumers and communities. The April 12, 2021, press release is available at www.federalreserve.gov/newsevents/pressreleases/other20210412a.htm.

**Legal Interpretations FAQs:** The Federal Reserve Board published FAQs on existing legal interpretations related to a number of the Board’s regulations. The FAQs are intended to increase transparency and enhance accessibility to the Board’s and Board staff’s legal interpretations. The March 31, 2021, press release is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20210331b.htm.
SPEECHES

Speeches Related to the U.S. Economy and Monetary Policy


Speeches Related to Supervision and Regulation


Speeches Related to Payment Systems


TESTIMONIES

Vice Chair Randal K. Quarles testified on the Federal Reserve’s Supervision and Regulation Report before the Committee on Financial Services, U.S. House of Representatives, Washington, D.C., on May 19, 2021. Vice Chair Quarles submitted identical remarks to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, on May 25, 2021. The report summarizes banking conditions and the Federal Reserve’s supervisory and regulatory activities, in conjunction with semiannual testimony before Congress by the vice chair for supervision. The testimony and report are available at www.federalreserve.gov/newsevents/testimony/quarles20210519a.htm.


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