



FEDERAL RESERVE BANK
OF SAN FRANCISCO

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Note: The opinions expressed are those of the presenters, are intended only for informational purposes, and are not formal opinions of, nor binding on, the Federal Reserve Bank of San Francisco or the Federal Reserve Board of Governors.

Regulatory and Supervisory Focus

Material Financial Risk Focus

- Conclusions and issues cited will have clear ties to material financial risk.
- Ongoing examiner training and development to ensure the requisite expertise and examiner judgement.

Pragmatic and Tailored Approach

Leadership has indicated:

- A continued strong focus on tailoring supervisory approaches
- Revisiting the community bank leverage ratio (CBLR).

Path for Innovation in Banking

Several actions taken:

- Sunset of the Novel Activities Supervision Program.
- Recission of restrictive crypto-related guidance.
- Issuance of a joint statement on risk management considerations for crypto-asset safekeeping.

Clear and Transparent Expectations

- Clear communication on what it takes to meet supervisory expectations.
- Applications requirements and timelines should be readily apparent.

Exam Observations

Select Review Topics

Asset Quality: We have seen a modest increase in modified and special mention assets. Examiners continue to monitor loan modifications to ensure they are supported by updated financial information, use prudent standards, and are risk-rated appropriately. We also continue to evaluate allowance methodologies for reasonableness.

Concentration Risk: Where appropriate, examiners are engaging banks in discussion to assess whether concentration limits are well supported and aligned with risk tolerances. We see concentration risk challenges on both sides of the balance sheet.

IT and Cybersecurity: Cybersecurity remains a leading risk area, with examiners noting community banks continued focus on strengthening IT controls, managing third-party exposures and enhancing incident response capabilities.

The background features a large, faint, circular seal of the Federal Reserve Bank of San Francisco. The seal includes an eagle with spread wings at the top, a shield with stars and stripes in the center, and the text "FEDERAL RESERVE BANK OF SAN FRANCISCO" around the perimeter. The date "MAY 20, 1914" is also visible at the bottom of the seal.

Thank you

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