



CONFERENCE OF STATE BANK SUPERVISORS

STATE BANKING DEPARTMENT ACCREDITATION PROGRAM SUMMARY

For information, contact:

Matt Comber

Director, Accreditation

mcomber@csbs.org

202-728-5750

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THE CSBS STATE BANKING DEPARTMENT ACCREDITATION PROGRAM

Introduction

The mission of the Conference of State Bank Supervisors (CSBS) is to assure the ability of each state banking authority to provide safe, sound and well regulated financial institutions to meet the unique financial needs of local economies and citizens. In support of that mission, CSBS sponsors a comprehensive state banking department performance Accreditation Program to enhance the professionalism of state banking departments and their personnel.

During the early 1980's, CSBS developed an accreditation program that was designed to recognize and enhance excellence in state regulation. The current program strives toward a cooperative State/Federal working relationship. Over the years, the Accreditation Program has evolved as a result of long-standing CSBS policy and the development of the current Accreditation Program is a logical extension of past efforts.

Today, the Accreditation Program involves a comprehensive review of the critical elements that assure a banking department's ability to discharge its responsibilities through an investigation of its administration and finances, personnel policies and practices, training programs, examination policies and practices, supervisory procedures, and statutory powers. In setting high standards, CSBS is supporting public interest goals by identifying highly competent state banking departments and strengthening the capabilities of all departments. The CSBS Accreditation Program is voluntary and not required for membership in CSBS or for participation in CSBS activities.

Goals of the CSBS Accreditation Program

It is the goal of the CSBS State Bank Department Accreditation Program to encourage state banking departments to enhance their capability to promote safe and sound banking with a minimum of regulatory burden and cost, and to assist them in achieving that capability.

Specific goals of the Program include:

1. Provide guidance and assistance to state banking departments through self-evaluation and self-improvement.
2. Provide independent evidence of the capability of an accredited state banking department, in view of the interstate banking environment.
3. Assist each department by providing documentation that may help it to obtain the resources necessary to assure the safety and soundness of state banks.
4. Strengthen the dual banking system by demonstrating to Congress, the federal regulatory agencies, other state banking departments and the public, the high level of capability of each accredited state banking department.
5. Share ideas and processes on state regulation as identified during the accreditation reviews.

Accreditation Standards

To achieve accreditation, a state banking department must test itself against the criteria in the Self-Evaluation Questionnaire and achieve a total score of not less than 80% and a score of not less than 75% on the two Examination Sections and not less than 70% on all other sections. This score incorporates the standards noted below:

- A. The legal authority to charter, examine, supervise and regulate all state-chartered banks consistent with basic principles of safety and soundness, and protection of the public interest.
- B. The demonstrated capability to conduct safety and soundness examinations of state-chartered banks within acceptable time limits. This capability should be supported by a combination of active monitoring and review of federal examinations and other methods in a manner consistent with state statutes, safety and soundness and the public interest.
- C. Specialized capabilities as required in each state to assure safety and soundness of all state-chartered banks and full compliance with statutes.
- D. Adequate qualified staff with expertise to charter, examine, supervise and regulate all state-chartered banks and to perform other departmental functions and responsibilities.

- E. A policy, statutory or departmental, which requires an examination not less frequently than once every 18 months for CAMELS rated 1 and 2 financial institutions and not less frequently than once every 12 months for CAMELS rated 3, 4, and 5 financial institutions.
- F. Adequate statutory authority for the department to carry out its duties and responsibilities independently, including authority to take formal enforcement action(s).
- G. Adequate funding to achieve all above-mentioned criteria.

Steps in the Accreditation Program

The following steps comprise the accreditation process:

1. The state banking department completes the Self-Evaluation Questionnaire.
2. The department submits a request for accreditation review to the CSBS Performance Standards Committee (PSC). The request includes:
 - a. The department's completed Self-Evaluation Questionnaire and related documents.
 - b. A contract, including attachments, stating legal considerations between CSBS and the department.
3. The PSC Staff Director assembles a Review Team to conduct an on-site evaluation. The Team evaluates and scores the same Self-Evaluation Questionnaire as the banking department and determines, by whatever means it deems appropriate, whether the state's self-ratings are justified. The Review Team then issues a recommendation.

The methods used may include staff interviews, document verification and reviews of policies and procedures. Perhaps the most important task during the on-site evaluation is the examination of the department's work product (e.g., bank examination reports, enforcement actions, and correspondence). At the conclusion of the on-site review, the Review Team will conduct an Exit Meeting with the head of the banking department and/or his or her designee to discuss the Team's findings and tentative conclusions and to afford the department an opportunity to respond. The Department may also present any additional information to the Audit Team or the Performance Standards Committee prior to the final decision on accreditation. The Department has up to 10 calendar days to submit any additional information to the Director of Accreditation.

4. The PSC Staff Director assembles an Audit Team. The Audit Team reviews and considers the findings and recommendation made by the Review Team, plus any additional information presented by the Department if applicable, assuring consistency between different Review Teams and generally assuring that each accreditation exercise meets the standards and requirements of the PSC.
5. The Review Team and Audit Team submit their findings in written reports to the PSC.
6. The PSC members analyze the Review Team report and the Audit Team findings plus any additional information presented by the Department, if applicable, to make a final decision on accreditation.
7. If the PSC members vote to accredit the department, the PSC Chairman officially notifies the department that it is accredited, contingent upon:
 - a. the successful completion of periodic reviews acceptable to the PSC, and
 - b. full re-accreditation by the PSC not more than seven years from the initial accreditation. The steps to achieve re-accreditation are the same as those for an initial accreditation.
8. Decisions made by the Performance Standards Committee may be further appealed to the CSBS Education Foundation Board of Trustees.

CSBS handles each application and the entire accreditation process in strict confidence up to the announcement of a department's accreditation, unless the state bank supervisor elects otherwise.

Self-Evaluation Questionnaire: Purposes, Benefits and Uses

The Self-Evaluation Questionnaire is a multi-purpose tool to help achieve the goals of the CSBS Accreditation Program as set forth above. It is used by:

1. State banking departments for self-improvement through a detailed self assessment.
2. State banking departments to document needs for additional resources from their respective states.
3. Newly appointed state bank supervisors to "inventory" department capabilities and needs.
4. State banking departments beginning the strategic planning process.
5. State banking departments to determine if they are ready for accreditation review by the PSC.
6. State banking departments to document and defend applications for CSBS accreditation.
7. Accreditation Review and Audit Teams to evaluate the department in a disciplined and organized manner.

The Role of Key Groups in the Accreditation Program

In order to promote consistent and disciplined decisions, the Accreditation Program involves actions or decisions by several different groups. These groups include:

1. The Conference of State Bank Supervisors

The Conference of State Banks Supervisors (CSBS) is the professional organization of those public officials who charter, regulate and supervise the state-chartered commercial and savings banks of the nation. Established in 1902 as a clearinghouse for the ideas of the state bank supervisors, CSBS has evolved into the most significant source of education and research services aimed at strengthening state banking departments. The Conference provides the majority of the technical training needs of the state banking departments. CSBS established the Performance Standards Committee to conduct its Accreditation Program and supports the functions and decisions of the Committee.

2. The CSBS Education Foundation Board of Trustees

The CSBS Education Foundation Board of Trustees is a committee of CSBS which oversees the Professional Development Programs including the Accreditation Program. Final decisions of the PSC may be appealed to the CSBS Education Foundation Board of Trustees.

3. The Performance Standards Committee

The Performance Standards Committee (PSC) is a committee of the CSBS Education Foundation. The PSC has a staff Director.

The PSC encourages and recognizes high levels of capability and performance by state banking departments. The PSC offers the Self-Evaluation Questionnaire to help state banking departments examine and improve themselves even if they do not currently seek accreditation. The PSC reviews the Accreditation Program format, content and procedures and revises the Program as necessary including establishing Best Practices. The PSC establishes the Review and Audit Teams to carry out the Accreditation Program and determines the duties and functions of these teams. The PSC staff director provides clerical support for the teams. The PSC receives the reports and findings of its Review and Audit Teams on the accreditation of a state banking department.

Other committees within CSBS are encouraged to submit suggestions to the PSC for enhancements to the Accreditation Program.

Once the PSC makes a decision regarding accreditation of a Department, it will notify the Department in writing as promptly as possible. The forms of possible PSC action are:

Initial Accreditation:

1. Granting of initial accreditation.
2. Deferral on the decision to grant initial accreditation for a specified period of time.
 - ⇒Show Cause
 - ⇒Denial of Initial Accreditation.
3. Denial of initial accreditation.

Continued Accreditation (based on Annual Review or On-Site Review):

1. Continue accreditation.
2. Probation for a specified period of time
 - ⇒Show Cause
 - ⇒Terminate accreditation.
3. Denial of continued accreditation.

Re-Accreditation:

1. Re-Accredit.
2. Probation for a specified period of time
 - ⇒Show Cause
 - ⇒Terminate Accreditation.
3. Denial of re-accreditation.

PSC decisions may be appealed to the Education Foundation Board of Trustees.

NOTE: Regulatory Reporting Requirements may be set by the PSC resulting in Probation or Denial of Accreditation as situations arise.

4. **Accreditation Review Team**

A Review Team consists of three people whose long experience in bank regulation allows them to assess the capabilities of a state banking department accurately. Review Teams can include two former state bank regulators, and one or two former regulators from the FDIC or the Federal Reserve. Team members will serve a five year term from the date of their last regulatory experience with an option of one five year extension.

Each Review Team evaluates the capability of a department to establish and maintain a competently-run regulatory program, to produce a high quality bank examination, and to enforce all relevant statutes. The Review Team examines the department's enabling legislation and the legal framework in which the regulation takes place. The Team assesses the department's success in obtaining an adequate budget and necessary personnel, in training, and in adequately managing its resources. The Team judges how well the department meets the goals of highly professional, competent and consistent regulation. The Review Team places great weight on the current and probable future reliability of the department's work product.

Prior to beginning an accreditation review, the Review Team members examine the written submissions of the department. The Self-Evaluation forms the basis for the Team's initial questions. The process of verification of the material submitted by the state helps answer questions concerning the quality of a state's regulatory program.

Among the Review Team's most important tasks are to examine the department's examination reports, monitoring systems, work-sheets, and enforcement actions. The Team makes random checks of bank examination reports and reviews other files and documents, including historical budget information,

approved staff levels, personnel procedures, salaries, turnover rates, and training. Organizational charts, methods of regulation and supervision, including review of the department's rules and statements of policy, targeting of troubled banks, scheduling of examination and format of the report of examination are investigated. The Team also interviews department personnel. The on-site review typically lasts three days.

After completing staff interviews and examination of the department's work product, the Review Team rates the department on each of the Self-Evaluation questions. The Team then conducts an exit meeting with the state bank supervisor and/or his or her designee during which the Team summarizes its findings. Lastly, the Review Team writes a report recommending whether or not to accredit, including the strengths and weaknesses observed leading to that conclusion. This report includes recommendations to help the department make improvements.

The Review Team does not perform a full scale management audit of the department, nor does the Team perform a detailed financial audit.

5. **Audit Team**

The Audit Team reviews the report and recommendations of the Review Team for consistency and professionalism in measuring the performance and capabilities of state banking departments. The Audit Team reports its findings to the PSC.

The Audit Team typically consists of two to three members who are current or former bank regulators from the state and federal regulatory agencies. The Audit Team and Review Team are taken from the same cadre of former regulators. In some instances a PSC member may serve on the Audit Team.