

STATE/FEDERAL SUPERVISORY PROTOCOL

Statement of Purpose and Applicability

The overall purpose of this Protocol is to outline a basic framework for supervising state-chartered banks with interstate branches. Accordingly, the goals and guiding principles of this Protocol apply to any multi-state, state chartered bank.¹ The extent to which the specific elements will apply depends upon the size and complexity of the subject bank; all elements would normally apply to interstate banks with total assets over \$1 billion.

I. Goals and Guiding Principles

- A. The goals of the Board of Governors of the Federal Reserve System (the "Board"), the Federal Deposit Insurance Corporation (the "FDIC") and the State Banking Departments are to promote the safety and soundness of financial institutions; to supervise and examine in a seamless, flexible and risk-focused manner; to minimize regulatory burden and expense; and to foster consistency, coordination, and communication among the appropriate Federal and State regulators.
- B. To achieve these goals, the Board, the FDIC and the State Banking Departments resolve to:
 - 1. Coordinate the supervisory process to achieve a seamless and flexible regulatory program for state-chartered banks with a multi-state presence.
 - a. Recognize the Home State Supervisor² as the single point of state contact for a particular interstate bank consistent with the CSBS Protocol adopted April 20, 1995. The Responsible Federal Reserve Bank and the

¹ The most fundamental objectives of the Protocol, i.e. coordination, flexibility, and consistency, would apply to any state chartered bank.

² See appendix for definitions.

Responsible FDIC Regional Office, respectively, will coordinate primarily with the Home State Supervisor for state member banks and state nonmember banks.³

2. Develop a supervisory program that is tailored to a bank's condition and risk profile and that specifically recognizes and addresses its unique characteristics.
3. Coordinate fully the applications process by promoting consistency in approach and developing common forms.
4. Provide information to a multi-state bank as to the laws and regulations governing its operations and the general regulatory policies and standards applicable to its supervision process.

II. Supervisory Process

A. Supervisory Plan

1. The Home State Supervisor and Responsible Federal Agency will each identify a specific individual responsible for developing and coordinating the supervisory process for each state chartered bank operating in more than one state. These individuals will, among other things, serve as the liaison with bank management and will ensure that the principles of this Protocol are achieved.
2. The Home State Supervisor and Responsible Federal Agency will jointly develop and update, as needed, a comprehensive supervisory plan covering an agreed upon planning horizon for each bank. This plan will take into consideration the bank's organizational structure and risk profile.⁴ It will address the scheduling and timing for safety and soundness and specialty examinations⁵ and/or targeted reviews, off-site monitoring programs, and meetings with bank management.

³ In bank holding companies with multiple state-chartered subsidiary banks, the Responsible Federal Reserve Bank for the holding company will coordinate with the appropriate parties to ensure the principles of this Protocol are applied on a consolidated basis.

⁴ In developing the risk based supervisory plan, consideration will be given to the degree of reliance that can be placed on the institution's internal control/compliance functions, as well as external audit, as appropriate.

⁵ For example, Trust, Information Systems and Consumer Affairs/CRA Examinations.

3. The Home State Supervisor and Responsible Federal Agency will take all necessary steps to implement the supervisory plan and will coordinate with Host States and Local Federal Reserve Banks or Local FDIC Regional Offices.

B. Examinations

1. The over-riding goal of this Protocol is to minimize regulatory burden and maximize efficiency by conducting joint or alternating examinations.⁶
2. The scope of on-site examinations will be jointly developed during the pre-examination period for joint examinations. The Home State Supervisor and Responsible Federal Agency will consult, as appropriate, on the scope of alternate examinations. The scoping process will focus on ensuring examinations are risk-focused.
3. Based on this planning, the Home State Supervisor and Responsible Federal Agency will prepare a single joint entry letter for joint examinations. With an emphasis on reducing regulatory burden, entry letters for both joint and alternate examinations will request information critical to the examination process or off-site evaluation, thereby minimizing on-site efforts.
4. The Home State Supervisor and Responsible Federal Agency will coordinate off-site and on-site examination work and will make every effort to avoid duplicative information requests. Examiners will coordinate requests for critical information related to centralized functions, such as risk management or credit review, that cross legal entity lines.
5. For joint examinations, the Home State Supervisor and Responsible Federal Agency will prepare a joint examination report that clearly and concisely identifies supervisory issues and any required corrective action.⁷

⁶ Joint examinations will normally be used for the larger, more complex organizations; alternate examinations are generally reserved for small organizations.

⁷ For examinations conducted under the alternating program, the agency conducting the examination will prepare the examination report.

C. Supervisory Actions

1. The Home State Supervisor and Responsible Federal Agency will, in all cases, consult one another regarding supervisory actions.
2. When the Home State Supervisor and Responsible Federal Agency jointly deem that a follow-up supervisory action is warranted, both agencies will take any necessary steps to develop and implement a joint action.

III. Communications

- A. The individuals designated by the Home State Supervisor and Responsible Federal Agency as responsible for a particular bank will take all necessary steps to facilitate clear communication and information sharing in order to reduce burden on the institution and to keep each other informed of developments pertinent to supervision of the bank.⁸
- B. Nothing in this Protocol preempts any statutory or regulatory obligation of a bank to provide specific information or file required reports with a Federal or State supervisor.

IV. Applicable Law

- A. The Board, the FDIC and the State Banking Departments recognize they may not necessarily be empowered to waive provisions of Home or Host State law directly applicable to multi-state banks or their branches in Host States. However, to assist multi-state, state-chartered institutions and their counsel in resolving issues of applicable law, the Board, the FDIC and the State Banking Departments agree that these issues may be addressed using the following general principles.
 1. Host State law shall apply generally to the operations of a branch of a multi-state bank in the Host State including: (i) antitrust law and deposit concentration limits; (ii) community reinvestment and similar laws; (iii) consumer protection laws,

⁸ As appropriate, the Responsible Federal Agency and Home State Supervisor will take any necessary steps to communicate with Local Federal Reserve Banks/FDIC Regional Offices and Host State Supervisors, respectively.

including lending and usuary laws to the extent that laws or court decisions regarding the exportation of interest rates are inapplicable; (iv) fair lending or equal credit laws; and (v) other operational matters where competitive equality with host state banks may be an issue.

2. Home State law shall apply generally to the corporate structure and internal policies and procedures of a multi-state bank including: (i) charter and bylaws; (ii) incorporation and dissolution; (iii) board of directors and management; (iv) capital; (v) loans, lending limits and investments; (vi) common trust funds; (vii) dividends; (viii) indemnification of directors and officers; (ix) stock and debt; and (x) structure of bank subsidiaries.
3. These provisions are not intended to supersede any cooperative agreements between the states.

V. Applications

- A. The Home State Supervisor and the Responsible Federal Agency will closely coordinate on all applicable applications matters.
 1. The Home State Supervisor and the Responsible Federal Agency will take all appropriate actions to ensure that applications filed by multi-state banks are processed in a coordinated and timely fashion by their respective agencies.
 2. Common applications forms and applications requirements, such as concurrent processing periods, will be developed to the extent practicable under State and Federal law.
 3. To the extent that applications forms differ, the Home State Supervisor and the Responsible Federal Agency will accept needed information contained on the other agency's forms, where practicable.

APPENDIX

Definitions and Abbreviations

- "Home State" means the state where a state-chartered, multi-state bank is chartered.
- "Home State Supervisor" means the bank supervisory agency of the Home State of a multi-state bank.
- "Host State" means a state other than the Home State of a bank where the bank maintains a branch.
- "Local FDIC Regional Office" means an FDIC regional office, other than the Responsible FDIC regional office, where a state nonmember bank maintains a branch.
- "Local Federal Reserve Bank" means a Federal Reserve district, other than the Responsible Reserve Bank's district, where a member Multi-State Bank maintains a branch.
- "Responsible FDIC Regional Office" means the FDIC regional office with responsibility for coordinating the FDIC's supervision process for a state nonmember bank.
- "Responsible Federal Reserve Bank" means the Federal Reserve Bank with responsibility for coordinating the Federal Reserve's supervision process for a state member bank.
- "Responsible Federal Agency" means either the Responsible Federal Reserve Bank or Responsible FDIC Regional Office for state member banks and state nonmember banks, respectively.