



Executive Summary, 2025-SR-B-003, March 3, 2025

The Bank Exams Tailored to Risk Process Promotes Risk-Focused Supervision of Community Banking Organizations, but Training Can Be Enhanced

Findings

We found that the Bank Exams Tailored to Risk (BETR) process promotes tailored supervision of community banking organizations (CBOs), but the Board of Governors of the Federal Reserve System can enhance training on the BETR process.

Specifically, we found that examination staff in the Federal Reserve Banks we selected for review tailored the BETR-suggested risk classifications, examination hours, and procedures to supervised institutions. This approach aligns with the *Commercial Bank Examination Manual*, which states that examiners should tailor supervisory activities to an institution's condition, risk profile, and unique characteristics. Further, the Board encourages examination staff to apply supervisory judgment during the BETR process. By allowing examination staff to tailor their supervisory activities, the BETR process promotes risk-focused supervision and effective resource allocation.

Additionally, we found that some examination staff expressed interest in increasing their understanding of the BETR process and models. We attribute examination staff's desire for additional information on the BETR process and models to insufficient training on BETR and a lack of awareness about available resources. We believe that conducting additional training on the BETR process and models and reinforcing the training resources and guidance materials available to examination staff will enhance their ability to use BETR to scope examinations and will increase the effectiveness of the BETR process.

In addition, we identified a matter for management consideration related to creating guidance on using BETR for institutions with unique business models or novel activities.

Recommendations

Our report contains two recommendations designed to enhance the effectiveness of the Board and Reserve Banks' BETR process. In its response to our draft report, the Board concurs with our recommendations and outlines actions to address each recommendation. We will follow up to ensure that the recommendations are fully addressed.

Purpose

We conducted this evaluation to assess the Board and Reserve Banks' application of the BETR process for CBOs. The scope of our evaluation included the use of BETR to assess credit and liquidity risks in full-scope examinations led by the Federal Reserve Banks of New York, Kansas City, and San Francisco from January 1, 2022, through December 31, 2023.

Background

The Board plays a significant role in supervising and regulating financial institutions. Through its oversight, the Board seeks to ensure that the institutions under its supervisory authority operate in a safe and sound manner and comply with all applicable federal laws and regulations. The Board delegates to each Reserve Bank the authority to supervise certain financial institutions located within the Reserve Bank's district.

In 2019, the Board implemented the BETR process to facilitate risk-focused supervision. BETR helps examination staff determine the scope and supervisory resources for safety-and-soundness examinations of CBOs. The BETR process combines metrics with examiner judgment to classify the levels of risk at a state member bank and tailor the examination to reflect those risks. BETR consists of three interrelated components: risk assessments, risk-aligned examination hours, and risk-aligned procedures.