BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
Docket No. OP- 1681 

FEDERAL DEPOSIT INSURANCE CORPORATION  
RIN 3064-ZA08  

Request for Information on Application of the Uniform Financial Institutions  
Rating System  

AGENCY: Board of Governors of the Federal Reserve System (Board or FRB) and 
Federal Deposit Insurance Corporation (FDIC).  

ACTION: Notice and request for comment.  

SUMMARY: The FRB and the FDIC (collectively, the agencies) are seeking  
information and comments from interested parties regarding the consistency of ratings  
assigned by the agencies under the Uniform Financial Institutions Rating System 
(UFIRS). The assigned ratings are commonly known as CAMELS ratings. The agencies  
also are interested in receiving feedback concerning the current use of CAMELS ratings  
by the agencies in their bank application and enforcement action processes.  

DATES: Comments must be received by [INSERT DATE 60 DAYS AFTER DATE OF  
PUBLICATION IN THE FEDERAL REGISTER].  

ADDRESS: Interested parties are encouraged to submit written comments to any or  
all of the agencies listed below. Comments should be directed to:  

Board: You may submit comments, identified by Docket No. OP-1681, by any of the  
following methods:  

• Agency Web Site: http://www.federalreserve.gov. Follow the instructions for  
submitting comments at  
• **E-mail**: regs.comments@federalreserve.gov. Include docket number in the subject line of the message.

• **FAX**: (202) 452-3819 or (202) 452-3102.

• **Mail**: Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551. All public comments are available from the Board’s website at [http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm](http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm) as submitted, unless modified for technical reasons or to remove personally identifiable information at the commenter’s request. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room 146, 1709 New York Avenue, NW, Washington, DC 20006, between 9:00 a.m. and 5:00 p.m. on weekdays.

**FDIC**: You may submit comments, identified by RIN 3064-ZA08, by any of the following methods:

• **Agency Website**: https://www.fdic.gov/regulations/laws/federal/. Follow the instructions for submitting comments on the Agency website.

• **Email**: Comments@fdic.gov. Include RIN 3064-ZA08 in the subject line of the message.

• **Mail**: Robert E. Feldman, Executive Secretary, Attention: Comments, Federal Deposit Insurance Corporation, 550 17th Street NW, Washington, DC 20429.
• *Hand Delivery:* Comments may be hand-delivered to the guard station at the rear of the 550 17th Street building (located on F Street) on business days between 7:00 a.m. and 5:00 p.m.

• *Public Inspection:* All comments submitted to the FDIC must include “FDIC RIN 3064-ZA08” in the subject line. All comments received will be posted without change to https://www.fdic.gov/regulations/laws/federal/—including any personal information provided—for public inspection. Paper copies of public comments may be ordered from the FDIC Public Information Center, 3501 North Fairfax Drive, Room E-1002, Arlington, VA 22226 by telephone at (877) 275-3342 or (703) 562-2200.

**FOR FURTHER INFORMATION CONTACT:**

**Board:** Alex Kobulsky, Senior Financial Institution Policy Analyst II, (202) 452-2031, and Catherine Piché, Deputy Associate Director, (202) 452-3793, Division of Supervision and Regulation; or Patricia Yeh, Senior Counsel, (202) 452-3089, Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), (202) 263-4869.

**FDIC:** Rae-Ann Miller, Associate Director, Risk Management Policy, Rmiller@fdic.gov, (202) 898-3898; Samuel B. Lutz, Counsel, Supervision and Legislation Branch, salutz@fdic.gov, (202) 898-3773, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429.
SUPPLEMENTARY INFORMATION:

Background Information

Section 10(d) of the Federal Deposit Insurance Act (FDI Act) generally requires the appropriate federal banking agency for an insured depository institution to conduct a full-scope, on-site examination at least once every 12 months, but permits a longer cycle—at least once every 18 months—for insured depository institutions that meet certain criteria, including the requirement that the insured depository institution must have total assets below a specified size limit.\(^1\) At the conclusion of an examination, examination staff develop findings and conclusions, which serve as the primary basis for assessing the condition of an insured depository institution under the UFIRS.\(^2\) The UFIRS is commonly called the CAMELS rating system, which is an acronym of the six evaluation components: Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk. In addition, the CAMELS rating system contains an overall composite rating.

The Federal Financial Institutions Examination Council (FFIEC)\(^3\) first adopted the UFIRS in 1979 to provide supervisors with a methodology for evaluating the soundness

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\(^1\)See Section 10(b) and 10(d) of the Federal Deposit Insurance Act. 12 U.S.C. 1820(d). See also 83 FR 67033 (December 28, 2018).

\(^2\) Additional details on the conduct and rationale of FDIC bank examinations can be found in the Risk Management Manual of Examination Policies and FRB examinations can be found in the Commercial Bank Examination Manual, which is available at: https://www.federalreserve.gov/publications/files/cbem.pdf.

\(^3\) Federal Financial Institutions Examination Council Act of 1978 (Pub. L. No. 95-630) (Nov. 10, 1978). Currently, the Director of the Consumer Financial Protection Bureau, the Chair of the Board of the FDIC, a governor of the Board of Governors of the Federal Reserve System, the Chairman of the National Credit
of depository institutions on a uniform basis. In addition, the UFIRS promotes uniform supervisory practices, and provides a consistent mechanism for identifying problem institutions.\(^4\) In December 1996, the UFIRS was revised after public notice and comment.\(^5\) The updated UFIRS added a component for rating sensitivity to market risk. The rating system was revised to clarify that the component rating assessments should consider an institution’s size, the nature and complexity of its business activities, and its risk profile; increase emphasis on risk management; and address additional complexities associated with on- and off-balance sheet investments of financial institutions.

_CAMELS Rating System_

The UFIRS describes each rating component, and includes a list of factors that examiners evaluate when assigning a rating to the institution. Examiners assign CAMELS components and composite ratings on a scale of “1” to “5.” A rating of “1” indicates the highest rating, strongest performance and risk management practices, and the least degree of supervisory concern, whereas a “5” indicates the lowest rating, weakest performance, inadequate risk management practices, and therefore, the highest degree of supervisory concern. Each component rating contains risk management considerations that emphasize the ability of management to respond to changing circumstances and to

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address the risks that may arise from changing business conditions or the initiation of new activities or products and are an important factor in evaluating a financial institution’s overall risk profile and the level of supervisory attention warranted. Institutions are rated individually based on their primary Federal or state regulator’s assessment of how each institution’s risk profile fits the CAMELS definitions.

The agencies also conduct reviews and examinations of institutions’ compliance with laws and regulations related to anti-money laundering and consumer protection. Examiners consider the results and findings from these and other types of examinations and reviews, as appropriate, when assigning component and composite ratings under CAMELS.

The composite CAMELS rating bears a close relationship to the assigned component ratings. However, examiners do not assign a composite rating by computing an arithmetic average of the component ratings. When assigning a composite rating, examiners may give some components more weight than others depending on the situation and risk of the institution. Assignment of a composite rating may incorporate any factor that bears significantly on the overall condition and soundness of the institution.
The agencies also conduct examinations and reviews of certain specialty areas, outside of the CAMELS ratings, such as information technology,\(^6\) asset management/trust,\(^7\) and government securities dealers or clearing agencies.\(^8\) For the aforementioned specialty areas, agencies assign unique ratings to institutions. These rating systems are excluded from this RFI.

In addition to the regularly scheduled examinations, the agencies conduct off-site institution surveillance and monitoring that rely on relevant financial regulatory reports (for example, the Call Report) and supervisory information. The purpose of this monitoring is to identify institutions exhibiting increased risk profiles or financial deterioration between examinations. The surveillance process promotes timely supervisory attention to these institutions and directs examination resources to them.

*Communication and Confidentiality of CAMELS Ratings*

Agencies typically communicate the CAMELS ratings to an institution through a formal, written report of examination or other official agency correspondence. The CAMELS ratings and the report of examination or other official agency correspondence are property of the agencies and are provided to the institution’s board of directors and management for their confidential use. The report of examination and official correspondence are strictly privileged and confidential under applicable law, and the

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\(^6\) 64 FR 3109 (Jan. 20, 1999).
\(^7\) 63 FR 54704 (Oct. 13, 1998).
\(^8\) 17 CFR 450.3.
agencies prohibit disclosure of an institution’s CAMELS rating or report of examination in any manner without the primary federal regulator’s permission, except in limited circumstances specified in the law (12 U.S.C. 1817(a) and 1831m) and in the agencies’ regulations.9

Implications of CAMELS Ratings

The CAMELS ratings have a number of supervisory implications for institutions. For instance, the agencies increase supervisory activities, which may include targeted examinations between regularly scheduled examinations, if an institution’s CAMELS ratings are less than satisfactory.

The agencies take CAMELS ratings into account when evaluating institutions’ filings, such as merging with or acquiring another institution, opening new branches, or engaging in new activities.10 The agencies generally expect an institution to be in satisfactory condition, as reflected in its CAMELS ratings, before effecting expansion plans. The agencies expect an institution in less-than-satisfactory condition, or that has a less-than-satisfactory record of consumer compliance or performance under the Community

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9 See 12 CFR part 261. Any unauthorized disclosure of the report may subject the person or persons disclosing or receiving such information to the penalties of Section 641 of the U.S. Criminal Code (18 U.S.C. 641).

Reinvestment Act to concentrate their managerial and financial resources on remediating their deficiencies. An institution in less-than-satisfactory condition may seek approval for an expansionary proposal; however, the agencies would consider whether any proposed expansion would compromise management’s efforts to address the current deficiencies of the institution.

Supervisors issue formal enforcement actions to institutions to address practices that the supervisors believe to be unlawful, unsafe, or unsound.\textsuperscript{11} The initial determination of whether formal action is required usually results from examination findings. As such, composite and component ratings assigned under CAMELS are significant indicators of the need for heightened supervisory attention including enforcement actions for more problematic issues.\textsuperscript{12} The UFIRS states that with respect to an institution with a “4” composite rating, “close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems.” The agencies also utilize ratings in the implementation of certain laws and regulations.\textsuperscript{13}

\textbf{Request for Comments from Interested Parties}

The agencies are issuing this RFI to seek public input regarding how CAMELS ratings are assigned to supervised institutions, and the implications of such ratings in the

\textsuperscript{11} The Interagency Guidelines Establishing Standards for Safety and Soundness are found in 12 CFR 208 appendix D-1 for the FRB and in 12 CFR part 364 of the FDIC Rules and Regulations.

\textsuperscript{12} Enforcement actions may be informal, such as a Memorandum of Understanding, or formal, such as an Order issued under Section 8(b) of the Federal Deposit Insurance Act (FDI Act).

\textsuperscript{13} See, \textit{e.g.}, section 10(d) of the FDI Act, 12 U.S.C. 1820(d); 12 CFR 337.12.
application and enforcement action processes. This effort to seek comments and information is consistent with the agencies’ commitment to increase transparency, improve efficiency, support innovation, and provide opportunities for public feedback. This request for information is not a proposal to modify the CAMELS rating definitions. Such definitions were issued through the FFIEC.

The agencies encourage comments from interested members of the public, including, but not limited to, insured depository institutions, other financial institutions or companies, individual depositors and consumers, consumer groups, trade associations, and other members of the financial services industry. Given confidentiality requirements\textsuperscript{14} applicable to financial institutions’ CAMELS ratings and other report of examination findings and conclusions, the agencies realize there are limitations on responses regarding the consistency of how CAMELS ratings are assigned. The agencies, however, welcome general comments that do not breach these confidentiality requirements.

\textbf{Topics for Commenters}

\textit{CAMELS Rating System}

1. To what extent does each agency assign composite and component ratings in a manner that is consistent with the CAMELS rating system?

\textsuperscript{14} For the FRB, see 12 CFR 261 subpart C – Confidential Information Made Available to Supervised Financial Institutions and Financial Institution Supervisory Agencies, Law Enforcement Agencies, and Others in Certain Circumstances. For the FDIC, see 12 CFR part 309 – Disclosure of Information.
2. To what extent do the agencies appropriately communicate and support each rating after an on-site examination or at the end of an examination cycle, including communicating the effect of each rating or finding on the composite rating?

3. Does the agencies’ use of the CAMELS rating system vary from one examination, or examination cycle, to the next? Please explain.

4. Are the agencies generally consistent in their approach to assigning CAMELS ratings to institutions when compared to each other and across other supervisory agencies? What practices, if any, should the agencies consider implementing to enhance the consistent assignment of CAMELS ratings?

5. To what extent do the agencies apply the CAMELS rating system in a manner that is sufficiently flexible to reflect differences between financial institutions such as size, business models, risks, and internal and external operating environments, as well as overall technological developments and emerging risks?

6. To what extent does the scope of supervisory work performed during an examination cycle align with the components of the CAMELS rating system?
Which areas, if any, should receive more or less emphasis in order to assign a CAMELS rating appropriately?

7. What steps, if any, should the agencies take to promote the consistent application of the CAMELS framework in the supervisory process?

Implications of CAMELS Ratings

8. To what extent does an institution’s condition, as reflected in its CAMELS ratings, affect the agencies’ actions on applications, particularly for new or expanded business activities? To what extent, if any, should the agencies modify or clarify their approach?

9. To what extent do the CAMELS ratings impact the issuance of enforcement actions? To what extent does the issuance of enforcement actions impact CAMELS ratings? To what extent, if any, should the agencies modify or clarify their approach?

10. What steps, if any, should the agencies take to promote the consistent use of CAMELS ratings in applications and enforcement matters?
By order of the Board of Governors of the Federal Reserve System, October 17, 2019.

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Ann E. Misback,
Secretary of the Board.
Federal Deposit Insurance Corporation.
Dated at Washington, DC, on October 17, 2019.

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Annmarie H. Boyd,
Assistant Executive Secretary.