Introduction

An Operations Review of the Federal Reserve Bank of New York's supervision function is scheduled for September 8-26, 2008. The most recent Operations Review of the Second District's supervision function was conducted in May 2005.

Recognizing that the System is facing growing resource constraints in an increasingly challenging environment for bank supervision, the scope of the New York operations review will be limited to core supervision, and the team will perform its review from the Board's K Street offices in Washington, D.C. The team will rely primarily on electronically available supervisory products and documentation, supplemented by ongoing telephone communications. The team's evaluation of the Applications function will however include one week reviewing paper-based documents in New York, due to the difficulty of shipping extensive files to Washington D.C. Other onsite visits will only be used if deemed appropriate by the area leader responsible for a specific section of the review, in consultation with the Team Leader. However, flexibility will be needed with this modified review plan if the scope is broadened or if unforeseen delays occur.

Objective and Scope

The primary objective of the operations review program is to evaluate whether a Reserve Bank's products, processes, and procedures for the supervision and regulation programs adequately support performance of its delegated responsibilities. The reviews are led by Divisions of Banking Supervision and Regulation and Consumer and Community Affairs as part of the Board's oversight responsibilities, and are conducted by teams comprised of officers and senior staff from the Board and Reserve Banks.

The scope of an Operations Review is tailored to the particular risk characteristics of the District. A risk assessment is developed for each District by Board Quality Assurance staff and the scope is risk-focused to areas of perceived high or increasing risk. Based on these criteria and input from Board officers and staff, the New York operations review will evaluate safety and soundness supervision of large, regional and community banking organizations; consumer compliance supervision; bank secrecy and anti-money laundering compliance; and quality assurance. The review will include an assessment of the quality of supervisory products and of the effectiveness of the District's supervisory processes for ensuring that risk is appropriately identified and communicated to the District's supervised institutions. In addition, the team will evaluate the status of management's actions to address the findings from the 2005 operations review.

District Overview

The Second District is headquartered in New York, New York. The District encompasses New York State; the twelve northern counties of New Jersey; Fairfield County, Connecticut, Puerto Rico, and the Virgin Islands.

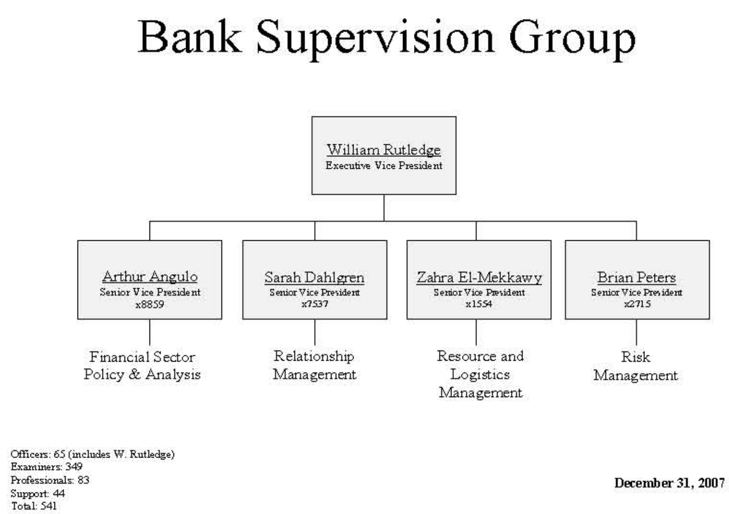
The Federal Reserve Bank of New York has largely the same responsibilities as the eleven other Reserve Banks, but it also has several unique responsibilities associated with its presence in one of the world's leading financial capitals. The Reserve Bank's supervision function is conducted by the Bank Supervision Group (the BSG or the Group), which is the largest supervision department within the Federal Reserve System, with approximately 540 professionals and support staff. Another 30 ANP are charged to the Group's budget, primarily from the Legal Department which administers the applications function on behalf of supervision.

Organizational Structure

The Bank Supervision Group both contributes to, and benefits from, the scope and complexity of the Reserve Bank's connections to the banking and financial services industry, and its key operational linkages to domestic and global financial markets. In recent years, management has described as an increasingly prominent objective of the Group's mission that it collaborate more closely with other functions within the New York Reserve Bank, in order to maximize the opportunity for synergies between bank supervision and oversight of financial stability.

Chart 1 below provides a high level view of the organizational structure of BSG. A more detailed organization chart is available at < http://b1bkszv10.rb.win.frb.org/index.htm >.

Chart 1



In 2008, in recognition that supervision function's credit and market risk areas are closely related, with significant subject matter overlap in terms of risk exposure and risk management techniques, the BSG created three "joint venture" teams that report jointly to the heads of Market Risk and Credit Risk. The three teams are: Counterparty Credit Risk, Structured Finance, and Credit Risk-Market Risk Monitoring. Each team is comprised of staff with skill sets that apply across the traditional market-credit risk boundaries.

Both the Structured Finance Team and the Counterparty Credit Risk Team employ an "embed" structure where Risk-side examiners are embedded on a number of CPC teams but report directly to Risk. The new organizational structure facilitates are more real-time need for information from the institutions with the benefits of direct on-site access to information and bank personnel that the CPC Team structure provides.

Other organizational changes have included:

- Adding a fifth Anti-Money Laundering (AML) team in the Legal and Compliance Risk Department to provide technical support for monitoring compliance with the AML enforcement actions in place at Second District institutions.

- Establishing a new team in the Financial Sector Trends Department to focus on the analysis of major financial institutions and the markets, in which they operate, with emphasis on large domestic and foreign banking organizations.

- Combining the Audit team and the Accounting and Financial Controls team in the Operational Risk Department. The new team, through continuous monitoring as well as targeted reviews, is supposed to review Audit, Accounting Control, and Policy issues and tap into the synergy between these three areas.

- Creating a new management position in the Operational Risk Department to focus on the operational risk governance among supervised institutions. This team's mission is also to evaluate enhancements to operational risk management as the banking industry approaches Basel II implementation.

- Dividing the Market Risk Controls/Traded Products team into two teams – a Market Risk Controls Team and a Traded Products Team. Both teams are to be involved in examinations, monitoring and financial stability work; however, the Market Risk Controls team is to coordinate the examination activities of the two teams, while Traded Products focuses primarily on monitoring and financial stability.

Supervisory Portfolio

The risk profile of the Second District has evolved in recent years as the number of institutions supervised has become somewhat fewer while their aggregate asset size has grown dramatically larger. From 2000 to 2007, the number of SMBs has declined from 33 to 22, and the number of program foreign banking organizations (FBOs) has declined from 122 to 94; meanwhile during those seven years the number of top-tier BHCs has remained approximately stable declining by only six over the past seven years to 129 BHCs as of year-end 2007.

During the same period (2000-2007), the District experienced very different trends in the volumes of assets supervised by type of entity. While aggregate assets of SMBs declined sharply (70 percent), due primarily to two high-profile conversions from state to national charters, assets of BHCs rose by 182 percent and those of FBOs rose by 146 percent. As of December 2007, Second District BHCs held 46 percent of System BHC assets, and Second District FBOs held 84 percent of System FBO assets.

The combined effect of these changes has been to reinforce the Second District's profile as a leading supervisor of large BHCs and FBOs, and strengthen the District's role for serving as a System leader of the LFI supervision program. Within the Federal Reserve System, the Second District is the largest in terms of the resources that it directs to perform the bank supervision program. Although the New York Reserve Bank supervises a relatively small number of institutions compared to other Federal Reserve Districts such as Chicago and Richmond that also manage large budgets and ANP resources, the Second District uses its staff to make significant contributions to the Federal Reserve supervision function. These include oversight over many of the most complex banking organizations operating in the U.S.; leading contributions to System supervision policy and program development; and performance of Federal Reserve oversight of financial market stability.

Banking Conditions

Performance of Second District SMBs, BHCs, and FBOs continues to be negatively impacted by the deterioration in the credit and housing markets, by the slowdown in economic activity, and by past poor underwriting standards, which have combined to reduce earnings, cause deterioration in asset quality and write-downs of high-risk exposures, lower demand for fee-based services.

Sharply rising net charge-off and non-performing loan rates have been reported each quarter over the last year at Second District BHCs. FBOs have been hit in the trading book due to exposure to U.S. assets.

The larger companies in particular have felt the need to raise new capital to offset recent losses and as a buffer against future losses. Since the beginning of the year, the Second District institutions have stayed above regulatory minimums; there are, however, concerns that future efforts to raise capital could be hindered by higher capital costs and regulatory limitations on hybrid capital instruments.

Both BHCs and FBOs have been increasing the allowance for loan losses as a buffer against future deterioration in the loan book. As a result, credit costs have doubled for BHCs over the past year, with provisions making up 35 percent of aggregate net revenue in 1Q08.

Current Assessment of the Supervision Function

The 2007 annual performance letter and talking points noted that the Second District's supervision program was generally satisfactory. Communication with Board staff was generally good. During the extreme market conditions in 2007, the CPC teams provided considerable insights into the problems confronting their organizations. However, the market disruptions also highlighted areas where the supervisory teams had information gaps and at times, were overly optimistic assessments of risks and controls. These weaknesses were particularly noted in the supervision of Citigroup, [redacted] and [redacted] The District has since implemented a number of remediation efforts to resolve these gaps and implement rating adjustments which will be further followed-up during this Operations Review.

With regard to LFI supervision, Board staff noted inconsistencies in the CPC teams' approach to overseeing non-bank subsidiaries. It is anticipated that the implementation of the consolidation supervision guidance (issued in proof of concept form in late 2007) will help the CPC teams provide more consistent oversight of non-bank subsidiaries.

In light of the lessons learned over the past year, Board staff have recommended that LFI supervisory plans and actions be designed to respond more effectively to emerging risks. Better linkages between supervisory products that highlight emerging risks and institutional supervisory strategies is needed.

In terms of staffing for the District's LFI portfolio, Board staff noted that the District seemed to be having trouble filling a number of key vacancies with some left unfilled for extended periods of time.

During 2007, concerns arose around the supervision of several Puerto Rican regional banking organizations, including Popular, Doral, R&G Financial, and First Bancorp. Early on, it was not clear that New York supervision had sufficient detail regarding the extent and risk of certain parent company and non-bank activities and operations, including an assessment of management responses. More recently, the Reserve Bank has enhanced its supervision and testing and improved the content and clarity of related communications with bank management. Notwithstanding the recent improvement in supervision, Board staff believe it would be beneficial for the Reserve Bank to allocate additional staff to these organizations as necessary to address the higher risk exposure.

Risk Assessment

Board Quality Assurance staff completed this Risk Assessment with input from the business lines and concluded that the District's overall risk profile is high. This assessment is primarily driven by the systemically important nature of the District's LFI portfolio, softening economic conditions, recent deterioration in the quality of the supervisory portfolio, and questions regarding the proper allocation of resources between supervision as defined by System procedures, requirements and standards, and the related but distinct activities associated with financial stability oversight.

The table and narrative below summarizes the Board's assessment of the Second District's risk profile; a separate more extensive risk assessment document is available for the reader from Board Quality Assurance staff.

Risk Assessment Summary

	Level of Risk			
Type of Risk	**Low**	**Moderate**	**High**	**Trend***
Environmental			X	Increasing
Portfolio			X	Increasing
Reputation			X	Stable
Operational			X	Increasing
Strategic			X	Stable
Composite			X	Increasing

<u>Environmental Risk: High and Increasing</u>

According to the July 2008 Beige Book, economic conditions in the Second District continue to soften. Manufacturers report that business activity has been steady to slower, and that increases in both input costs and selling prices remain widespread. Contacts at non-manufacturing firms generally report further weakening in business conditions, and the labor market has slackened since the last report.

Consumer confidence slipped to new lows in June; however retailers reported that sales were mixed but on balance, close to plan. Tourism activity in New York City has held relatively steady, but at a high level, since the last report. Housing markets have shown further signs of deteriorating, with sales activity down and prices flat to lower; Manhattan's rental market has also shown signs of softening. Office markets in and around New York City were mostly softer in the second quarter. Finally, bankers report weakening demand for loans (especially consumer loans), further tightening in credit standards, and increasing delinquency rates in the household sector.

Portfolio Risk: High and Increasing

After several years of benign credit conditions, asset quality has deteriorated sharply at Second District banking companies, particularly in the housing and consumer credit sectors. Weaker U.S. macroeconomic conditions stemming from the declining housing market and weakened consumer spending, coupled with poor underwriting standards, have resulted in sharply rising net charge-off and non-performing loan rates each quarter over the last year at Second District BHCs. FBOs have been hit in the trading book due to exposure to U.S. assets. Both BHCs and FBOs have been increasing the allowance for loan losses to offset future deterioration in the loan book. As a result, credit costs have doubled for Second District BHCs over the past year, with provisions making up 35 percent of aggregate net revenue in 1Q08.

Second District regional institutions have higher exposures to commercial real estate (CRE) relative to capital, compared to peer; the CRE portfolio composition is skewed towards loans for multi-family dwellings. CRE exposure for the Second District community banks is not as severe; it is well within regulatory guidelines on an aggregated basis, and is concentrated in the non-farm, non-residential sector. On an institution-specific basis, however, the degree of community bank CRE exposure is varied; one SMB examination currently under way, [name removed for e-mail transmission], will likely result in downgrading the asset quality and risk management components, and the composite, to a 3 as a result of real estate loan problems.

Other than the developing situation with [name removed], the District had two 3/4/5-rated SMBs as of June 30, 2008, an increase from one the prior year. The two SMBs are [name removed] and its related institution [name removed]; both are rated 3. The volume of 3/4/5-rated assets represents 5.1 percent of the District's SMB assets supervised compared to 0.1 as of fifteen months earlier (March 31, 2007).

As of August 2008, twelve banking organizations within the Second District's portfolio were under formal supervisory action; most of these were foreign banking organizations. The [name removed] situation described above is likely to result in formal action in during 4Q08 according to preliminary discussions with BSG staff. In addition, the District had four SMBs on the SR-SABR Watch List as of 2Q08.

Reputation Risk: High and Stable

We assign this rating in view of the concentration of LFI banking companies for which the New York Reserve Bank has supervisory responsibility, and in recognition of its role to perform and support supervision of the largest and most complicated BHCs through the work of the LFI Committee. In addition the Reserve Bank's highly visible position during the period of financial turmoil in 2007 and continuing into 2008 has contributed positively to the reputation of the Reserve Bank and the Federal Reserve System, while also implicitly raising the level of reputation risk through extensive media coverage and publicity.

Operational Risk: High and Increasing

This rating is primarily driven by recent organizational changes, effective July 2008, to address the needs of both core supervision and financial stability oversight. The effectiveness of these changes is untested. The operational risk is how to balance resource demands between bank supervision and financial stability oversight, two related but distinct activities; more specifically, the risk is whether, over time, neglecting traditional bank supervision would actually raise the degree of risk to financial stability. Board staff are concerned that BSG management is directing more resources toward financial stability oversight and less resources toward core supervision, with the result that the Group's execution of the delegated bank supervision function does not meet the System's documented procedures and requirements. Operational risk is also high and rising due to strains placed on supervisory resources given deterioration in the portfolio.

Strategic Risk: High and Stable

As with operational risk, the key strategic risk is how BSG senior management is allocating resources between core supervision and financial stability oversight. BSG management acknowledges that the ongoing disruptions in the credit markets during 2007 and continuing through 2008 resulted in the need for the BSG to review its plans for 2008. Preliminary scoping discussions with selected BSG staff reveal that the demands of financial stability oversight work, which BSG senior management has indicated is the Group's highest priority, makes it very difficult (although not impossible) to obtain resources for traditional institution-specific examinations, targets, and inspections. BSG senior management has told staff that the resource adjustments "do not signal a fundamental shift in the basic goals of bank supervision," and that the BSG remains "committed to the fundamental safety and soundness values that underpin our work."[1] However, Board staff remain concerned that the BSG may not be allocating sufficient resources to accurately evaluate the risk management and control capabilities of the Second District's supervisory portfolio, versus allocating resources to the broader objectives of financial stability oversight.

Risks Identified by the Reserve Bank

The New York Bank Supervision Group has been at the center of the extended period of financial market turmoil for more than a year. BSG senior management recognizes that is has redirected resources emphasis *from* "focusing primarily on the integrity of internal management controls at our firms through, for example, control validation work", *toward* understanding two key issues on a "real time basis". Those key issues are: (i) what firms are experiencing in the funding markets to assess implications for liquidity, and (ii) what are the sources and dimensions of potential losses that firms may face as a result of macro-economic developments or other capital or credit market strains.

[1] EVP Rutledge, "Outlook Column", March 27, 2008.

The following key risks were excerpted from Executive Vice President Rutledge's address to the BSG management and staff shortly after one of the key periods of financial turmoil, following the failure of Bear Stearns in late March 2008. The first priority in the volatile market environment is:

- to assess the resilience of financial firms;
- to understand financial market and economic developments; and
- to incorporate material changes in the risk exposures faced by firms into our analysis of their financial strength.

Scope of the Operations Review for the Second District

Scope

The scope of an Operations Review is tailored to the particular risk characteristics of the District. A risk assessment is developed for each District by Board Quality Assurance staff and the scope is risk-focused to areas of perceived high or increasing risk. Based on these criteria and input from Board officers and staff, the New York operations review will evaluate safety and soundness supervision of large, regional and community banking organizations; consumer compliance supervision; bank secrecy and anti-money laundering compliance; and quality assurance. The review will include an assessment of the quality of supervisory products and of the effectiveness of the District's supervisory processes for ensuring that, risk is appropriately identified and communicated to the District's supervised institutions. In addition, of critical interest is the question of how well the supervisory documents stand on their own in supporting and documenting the supervisory activities for supervised organizations.

The review will rely, to the extent possible, on electronically available supervisory products and documentation - to be supplemented by ongoing telephone communications and on-site reviews of work products, where deemed appropriate by the team leader responsible for a given area. For example, at the request of the Reserve Bank, the Applications team will travel to New York during the second week to perform its file review onsite. However, flexibility will be needed with this modified review plan if the scope is broadened or if unforeseen delays occur.

Reviews will follow the established operations review procedures, including preparation of a risk assessment, scope memorandum, selection of sample examination work for review (LFI/LBO to be determined by BS&R's Large Institution Group and DCCA's LFI/LCBO section), "get-to-know-you" calls, review procedures, preparation of close-out reports for each area reviewed, and a final report for distribution to the Reserve Bank president.

<u>Functional Review Areas</u>

For each "in-scope" functional area, the team will interview officers and staff, examine a sample of supervisory products, and review the function's business processes to address the scope objectives stated above. See Attachment 1 for a list of team members and assigned area responsibilities.

Team members will be provided with operations review procedures, interview questions, and file review worksheets to assist in conducting the reviews and documenting their findings. These materials are intended to be used as guides to assist in the effectiveness, efficiency, and consistency of the review process.

Operations Review Team Leader: William Spaniel, Board

LFI Supervision
Area Leader: Bill Charwat
Team Members: Kwayne Jennings, Pat Soriano, Nancy Berlad, Genevievette Walker, and a System analyst to be determined.

The LFI supervision program will follow established operations review file review procedures. The team members and sample of LFI institutions selected for review are listed below. The review team should focus on supervisory products created during the past two years. All examination files and associated workpapers are available electronically and access is being tested and confirmed.

LFI Institutions selected for review:

Company	Analyst
Bank of New York Mellon Corp.	To be determined
Barclays PLC	Kwayne Jennings
Deutsche Bank	Genevievette Walker
J.P. Morgan Chase	Nancy Berlad
Societe Generale	Pat Soriano
Citigroup*	Bill Charwat
UBS*	Bill Charwat
* Targeted review of how "lessons learned" are being incorporated into the supervision program.	

Regional Bank Supervision Program
Area Leader: Stan Crisp
Team Members: Ward Kanowsky and Anthony Cain

The Regional BHC supervision program will follow established operations review file review procedures. A sample of nine regional institutions has been drafted and is under review, and pending further discussion with Assistant Director Cross. The selection was based on the following criteria: all 3-and 4-rated regional BHCs (there are no 5-rated BHC institutions), plus a sample of 2-rated BHCs with SR-SABR exception flags. All Regional BHCs are under Supervising Examiner Meinrad Danzer, so diversity of officers is not a criterion. All examination files and associated workpapers are electronic and access is being tested and confirmed.

<table>
<tr><th colspan="5">Regional Bank Organizations</th></tr>
<tr><th>RSSD ID</th><th>Institution Name</th><th>Total Assets (000s)</th><th>Rating</th><th>SR-SABR</th></tr>
<tr><td>940311</td><td>Banco Popular de PR</td><td>26,137</td><td colspan="2" rowspan="4">Copy with ratings will be provided when you arrive in at the work location.</td></tr>
<tr><td>2736291</td><td>Banco Popular NY</td><td>12,738</td></tr>
<tr><td>2452180</td><td>R&G Financial Corp</td><td>7,189</td></tr>
<tr><td>2801546</td><td>W Holding Co, Inc.</td><td>17,081</td></tr>
<tr><td>501105</td><td>M&T Bank Corp</td><td>65,079</td><td></td><td></td></tr>
<tr><td>2132932</td><td>New York Community</td><td>30,923</td><td></td><td></td></tr>
<tr><td>2744894</td><td>First Bancorp</td><td>17,173</td><td></td><td></td></tr>
<tr><td>3212091</td><td>New York Private B&T</td><td>11,474</td><td></td><td></td></tr>
<tr><td>1048773</td><td>Valley National</td><td>12,961</td><td></td><td></td></tr>
<tr><td colspan="5">* SR-SABR ratings are for the lead bank in the holding company.</td></tr>
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Community Bank Supervision Program
Area Leader: Barbara Hendrix
Team Member: Jeff Deibel

The Community bank supervision program will follow established operations review file review procedures. A draft sample of ten community institutions has been selected and vetted with Board staff (Messrs. Bertsch, Goaslind, and Watkins). The selection is based on the following criteria: all community SMBs on the System Watch List, plus a sample of SMBs with SR-SABR exception flags, and SMBs with strong ratings. All of these SMBs have undergone Federal Reserve-led examinations in the past eighteen months. In addition, all community SMBs are under Examining Officer Armin Lovi, so diversity of officers is not a criterion. Examination files and associated workpapers are electronic and access is being tested and confirmed.

<table>
<tr><th colspan="6">Community Bank Organizations</th></tr>
<tr><th>RSSD ID</th><th>Institution Name</th><th>Total Assets (000s)</th><th>Rating</th><th>SR-SABR</th><th>Comments</th></tr>
<tr><td>9807</td><td>Amboy Bk NJ</td><td>2,696</td><td colspan="3" rowspan="3">Copy with ratings will be provided when you arrive in at the work location.</td></tr>
<tr><td>66015</td><td>BPD Bk NY</td><td>633</td></tr>
<tr><td>101671</td><td>Adirondack Bk</td><td>471</td></tr>
<tr><td>414102</td><td>Alden State Bk</td><td>195</td><td></td><td></td><td></td></tr>
<tr><td>884303</td><td>N Chemung</td><td>829</td><td></td><td></td><td></td></tr>
<tr><td>176101</td><td>Orange Cty TC</td><td>481</td><td></td><td></td><td></td></tr>
<tr><td>601416</td><td>Five Star Bk</td><td>1,905</td><td></td><td></td><td></td></tr>
<tr><td>175609</td><td>Bank of Millbrook</td><td>129</td><td></td><td></td><td></td></tr>
<tr><td>722816</td><td>Solvay Bk</td><td>524</td><td></td><td></td><td></td></tr>
<tr><td colspan="6"></td></tr>
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FBO Supervision Program
Area Leader: Lisa DeFerrari
Team members: Steve Dandes & Jyoti Kohli

The FBO supervision program will follow established operations review file review procedures. A sample of fifteen FBO institutions has been selected and vetted with Board staff (Assistant Directors Naylor and DeFerrari). The selection reflects the following criteria: all 3- or 4-rated FBO institutions for which the Second District has supervisory responsibility (none are 5-rated); for other institutions, one of the following criteria: a weak rating element within the CROCA or ROCA rating; geographic diversity; variety in size of U.S. banking assets; or other program interest.

<u>Sample of FBO Institutions</u>

FBO	Home Country	FBOENT	FBO RSSD	U.S. Banking Assets ($ mm)
BANCO COMERCIAL PORTUGUES, S.A.	Portugal	FBH	2527659	$841
BANCO DE LA NACION ARGENTINA	Argentina	FBO	1241912	$437
BANCO INDUSTRIAL DE VENEZUELA, C.A.	Venezuela	FBO	1243345	$598
BANK HAPOALIM B.M.	Israel	FHF	1242629	$8,413
BANK OF TAIWAN	Taiwan	FBO	1492808	$1,503
BNP PARIBAS	France	FHF	1231968	$115,499
CAIXA GERAL DE DEPOSITOS, S.A.	Portugal	FBO	2776390	$1,281
CALYON	France	FHF	1242357	$56,059
CHIBA BANK, LTD., THE	Japan	FBO	1142699	$1,215
HABIB BANK LIMITED	Pakistan	FBO	1242955	$41
INTESA SANPAOLO S.P.A.	Italy	FBO	2817604	$15,194
ISRAEL DISCOUNT BANK LIMITED	Israel	FBH	1240737	$9,403
NATIONAL BANK OF PAKISTAN	Pakistan	FBO	1242964	$202
NORINCHUKIN BANK, THE	Japan	FHF	1244409	$7,470
SUMITOMO MITSUI BANKING CORP.	Japan	FBH	1238471	$39,246
SVENSKA HANDELSBANKEN AB	Sweden	FBO	1243167	$7,441
UNITED OVERSEAS BANK LIMITED	Singapore	FBO	1243055	$4,363
WESTLB AG	Germany	FBO	1242478	$44,046

BSA/AML
Area Leader: Tom McKay

The BSA/AML section will follow established operations review file review procedures. A sample of nine has been selected based on a review of the NED BSA/AML form to identify past and potential BSA/AML concerns. The sample also provides representation from each of the four safety and soundness portfolios in our scope (LFI/LCBO, Regional, Community and FBO).

Institutions Selected for BSA/AML Review

RSSD	Institution	Exam Event	Start Date	Comments
214807	Deutsche Bank TC Americas	649840	12-17-07	
1037003	M&T Bank Corp.	643913	01-07-08	
884303	Chemung Canal Trust Company	691318	07-07-08	Open
992011	Svenska Handels AB Publ – NY branch	627915	04-16-07	
2736291	Banco Popular North America	646453	04-09-07	
444819	Bank of Tokyo Mitsubishi, UFJ, Ltd-NY branch	644006	09-04-07	
55318	Dresdner Bank AG NY branch	645585	12-17-07	
916811	Rabobank Nederland NY branch	700695	04-07-08	
2988997	Euroclear Bank NY rep office	618390	01-07-08	

Consumer Compliance Supervision Program
Area Leader: Kathleen Conley,
Team Members: Surge Sen, Anjanette Kichline, Brian Drolet (LFI/LCBO), and Rachelle Hunt (LFI/LCBO)

The risk-focused review of the Consumer Compliance Supervision function will assess the processes in place for effective and efficient fulfillment of delegated supervision responsibilities. The review will look to confirm the existence of processes and other factors that are consistent with successful supervision operations. To provide an assessment of the processes that support the core supervisory responsibilities of the Consumer Compliance Supervision function, Board staff will evaluate the quality of supervisory products, risk assessment and scoping activities, examination planning and scheduling, supervisory follow-up, quality control, communications, resource adequacy, and staff development.

The Consumer Compliance team will review a sample of work products for compliance with key programs and policies, evidence of effective and efficient processes, and overall quality that is consistent with effective supervision. The selected examinations reflect seven supervisory events since December 1, 2007, as summarized in the table below.

Consumer Compliance Institutions							
SMB	**Exam date (or event number**	**RSSD**	**Assets**	**CA rating**	**CRA rating**	**CRA type**	**CRA EIC/CA EIC/FL examiner**
Chemung	3/10/08	884303	829M			ISB	Grady/Rasbury/ Sanders
Tioga	3/10/08	910118	312M			ISB	Anstey/Cortright/ Cortright
Orange	1/14/08	176101	471M			ISB	Wilde/Cortright/ Benson
Peapack	12/3/07	236706	1.3B			LB	Anstey/Cortright/ Lizardi
Mizuho	1/14/08	229913	3.9B			WS	Anstey/Grady/ Grady
BPPR	Event # 688368 (Target Ltr 1/29/08 – fair lending)	940311	26B			NA	Parker
M&T	Event # 643894 (Target Ltr 2/27/08 – compliance)	501105	65B			NA	Freier

The Consumer Compliance team will review several complaints against the state member bank – [redacted] - that generates the largest number of complaints in the District and that has seen a significant increase in complaints received during the Jan-July 2008 period (90 complaints) as compared to the same time period in 2007 (24). The initial sample of [redacted] complaints is listed in the table below.

Consumer Complaints				
SMB	**RSSD**	**Complainant**	**CAESAR Control No.**	**Date – Close Letter**
M&T	501105	[redacted]	200811112	5-22-08
M&T	501105	[redacted]	200805339	4-3-08
M&T	501105	[redacted]	200811236	5-21-08

In addition, there were six Congressional complaints during this period and no discrimination complaints. Because C&CA is involved in the ongoing review and analysis of the Congressional complaints, the Consumer Compliance team will not sample Congressional complaints.

The Consumer Affairs team is coordinating its review of the Applications function with other members of the Operations Review Team; the scope of the applications review is presented in the next section, below.

The scope of the Consumer Compliance section of the LFI/LCBO review is still under review.