

**MEMORANDUM**

To: ALL CHIEF EXECUTIVE OFFICERS  
OF STATE-CHARTERED BANKS

FROM: Kevin B. Hagler  
Commissioner

SUBJECT: EXAMINATION FREQUENCY

DATE: August 6, 2013

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Effective February 1, 2007, the Department adopted the extended 18-month on-site examination cycle for institutions meeting the criteria, referenced below, after the federal law, Section 605 of the Financial Services Regulatory Relief Act of 2006, was signed. On September 25, 2007, interim rules issued on April 10, 2007 were adopted as final by federal regulators for the revision of the extended 18-month on-site examination cycle program, as well. The program makes eligible for an 18-month examination cycle a state chartered bank that meets the following criteria:

- (1) Has total assets of \$500 million or less.
- (2) Is well capitalized, according to the Department's Statement of Policy and according to the prompt corrective action statute at 12 USC 1831o, as implemented by Part 325 of the FDIC Rules and Regulations and Regulation H of the Federal Reserve Board.
- (3) Is well managed as defined as a "1" or "2" management component rating at the most recent examination.
- (4) Received a Composite Rating of "1" or "2" at its most recent examination.
- (5) Is not subject to any formal or informal enforcement proceeding or order.
- (6) Has not experienced a change in control during the previous 12-month period.

This program is designed to lessen regulatory burden on those organizations whose risk profiles and risk management policies and procedures are acceptable to the Department. The Department reserves the right to notify management that their institution does not qualify for the expanded examination program based on safety and soundness concerns that the Department may have regarding an institution. This program also does not limit the authority of the Department to examine any state chartered bank as frequently as deemed necessary.

The Department will continue to coordinate its examination schedule with the FDIC and the Federal Reserve on state-chartered banks. Both have adopted similar examination frequency guidelines of 18 months for defined institutions. The Department will continue to accept Federal examinations on an alternate examination program; therefore, Department examinations of your institution may be extended up to 36 months due to the alternate examination program.

While the Department lessens its on-site presence in these institutions, we will continue to include them in our off-site risk assessment, review and monitoring program. On a quarterly basis, reports generated from call report information will be reviewed to identify any developing problems. In addition, an annual in-depth review will be conducted. The review will focus on capital, assets, earnings, liquidity, and sensitivity to market risks. The review will be conducted using sources generated by the Department and the Federal Agencies. However, bank management could be asked for additional information if necessary. A contact with bank management will be made during this review to discuss the findings of the review, trends in the bank's market area, new products or new channels of service, and any changes the bank may be undergoing. Bank management will also be given the opportunity during this contact to discuss any other questions or concerns with the Department.