

KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

SENT VIA EMAIL

Email: jalbert@historyassociates.com

July 12, 2024

Mrs. Jessica Albert
History Associates
7361 Calhoun Place, Suite 310
Rockville, MD 20855

Re: Freedom of Information Law ("FOIL") Tracking No. 2023-094572

Dear Mrs. Albert:

I write in response to the FOIL request that you submitted to the New York State Department of Financial Services ("Department") on April 14, 2023, which has been assigned the above-referenced tracking number and requests:

1. All documents and communications, both written and electronic, sent between January 1, 2023, and March 12, 2023, exchanged between DFS staff, including, but not limited to, staff of the Banking Division, Consumer Protection and Financial Enforcement Division, Capital Markets Division, Cybersecurity Division, and Research and Innovation Division, and staff of the following federal and state agencies:
 - a. U.S. Department of the Treasury
 - b. Office of the Comptroller of the Currency
 - c. Federal Deposit Insurance Corporation
 - d. Securities and Exchange Commission
 - e. United States Federal Reserve System
 - f. National Economic Council
 - g. U.S. Department of Justice Office of the Attorney General

- h. California Department of Financial Protection and Innovation
2. That refers, relates, or discusses the stability of, or concerns or questions about risks related to Signature Bank Corp.,
3. Or refers, relates, or discusses Signature Bank Corp. and digital assets (For purposes of this request, the term “digital asset” means an asset that is issued and/or transferred using distributed ledger or blockchain technology, including, but not limited to, so-called “cryptocurrencies,” “coins,” and “tokens”), digital-asset products or services, digital-asset companies, or other digital-asset related activities. . .

During our meeting on November 30, 2023, we discussed the broad nature of your request and asked that you narrow the request to reduce the amount of time it would take for the Department to respond to your request. By letter dated January 22, 2024, you narrowed your request to seek the following:

[E]lectronic communications and documents originating from or addressed to the following DFS officials:

- Tanuja Mohapatra, Special Advisor to the Superintendent for Strategic Initiatives
- Peter Dean, Acting General Counsel
- Shirin Emami, Executive Deputy Superintendent, Banking Division
- Adrienne Harris, Superintendent
- Jack Lo, CFA, Virtual Currency Supervision Manager
- Thomas Eckmier, Deputy General Counsel (Cyber, Capital Markets, and R&I)
- Nicole A. Murray, MBA, CAMS, Virtual Currency Financial Crimes Director
- Peter Hoffman, Deputy Director of Legislative Affairs
- Allison Passer, Deputy Director of Enforcement, Consumer Protection
- Arnob Bhattacharyya, Director, Virtual Currency Supervision
- Trevor Collins, Virtual Currency Data Governance Director
- Max Dubin, Special Counsel to the Superintendent on Policy
- Allie Gold, Deputy Special Counsel to the Superintendent on Policy
- Polly Kylce Pennoyer, Special Counsel to the Superintendent for Policy
- Alyssa Albreada, MBA, Virtual Currency Financial Crimes
- J. Joan Hon, Assistant Deputy Superintendent, Virtual Currency Unit
- Debra Brookes, Deputy Virtual Currency Chief
- Jon Blattmachr, Virtual Currency Chief and Assistant Deputy Superintendent
- Peter Marton, Deputy Superintendent, Virtual Currency
- Joanne Berman, Deputy Superintendent, Cybersecurity Division
- Madeline Murphy, Assistant Deputy Superintendent for Consumer Protection
- Kathryn Taylor, Senior Assistant Deputy Superintendent for Consumer Protection

- Alison Passer, Deputy Director of Enforcement, Consumer Protection
- Kevin R. Puvalowski, Senior Deputy Superintendent for Consumer Protection
- Laura C. Sarli, Senior Assistant Deputy Superintendent, Enforcement
- Kaitlyn Asrow, Executive Deputy Superintendent, Research and Innovation
- Gille Ann Rabbin, Assistant Counsel, Cybersecurity Division
- Juliet Robinson, Director, Research & Innovation Division
- Nick Krafft, Senior Advisor, Research & Innovation Division
- Mariya Komartsova, Virtual Currency Research & Innovation Division
- Carla Varriveau, Chief Actuary

Please limit the search to include electronic documents and communications originating from or addressed to the above DFS officials and any staff from only the following federal agencies:

- a. Federal Deposit Insurance Corporation (email domain: @fdic.gov)
- b. United States Federal Reserve System (email domain: @frb.gov)
- c. Office of the Comptroller of the Currency (email domain: @occ.treas.gov)
- d. U.S. Department of Justice Office of the Attorney General (email domain: @usdoj.gov)

Finally, please use the following search terms when performing the search for electronic media responsive to my request:

- Signature Bank
- Signet
- (“Signature” & “bank”)

The Department has records responsive to your FOIL request including, but not limited to, emails, memoranda, drafts, and notes pertaining to Signature Bank that were exchanged between and among employees of the Department and federal agencies mentioned in your FOIL request. Hereinafter the “responsive records”. For the reasons set forth below, your request is denied.

Public Officers Law § 87(2)(a)

The Department is withholding the responsive records pursuant to Public Officers Law § 87(2)(a), which specifically exempts from disclosure records exempted by a state or federal statute. The applicable statutory provisions are N.Y. Banking Law (“Banking Law”) § 36(10). Specifically, Banking Law § 36(10) states, in pertinent part, that reports of examinations and investigations and correspondence and memoranda concerning or arising out of such examinations and investigations are confidential and shall not be made public. The statute fosters open communication between the Department and its regulated institutions, a necessity for effective regulation of financial institutions, by ensuring that records transmitted to the Department in connection with its supervision of a financial institution are protected from disclosure. The responsive records mentioned above were transmitted to

or created by the Department in connection with the Department's supervision of Signature Bank and are, therefore, required to be kept confidential and exempt from disclosure under Banking Law § 36(10).

In recognition of the importance of coordinated oversight of jointly supervised banks, New York's Banking Law § 36.10 specifically protects banking supervisory material exchanged between the Department and other banking regulators. It states as follows:

For the purposes of this subdivision, "reports of examinations and investigations, and any correspondence and memoranda concerning or arising out of such examinations and investigations", includes any such materials of a bank, insurance or securities regulatory agency or any unit of the federal government or that of this state any other state or that of any foreign government which are considered confidential by such agency or unit and which are in the possession of the department or which are otherwise confidential materials that have been shared by the department with any such agency or unit and are in the possession of such agency or unit.

Joint supervision of these banks would not be practical or even possible without the high level of confidentiality afforded by Banking Law § 36.10.

Conclusion

For the reasons mentioned above, your FOIL request is denied. Notwithstanding this denial, please see the attached report concerning the Department's supervision and closure of Signature Bank.

Pursuant to Public Officers Law § 89(4), you may appeal this Determination within 30 days by sending an email to FOIL.Appeals@dfs.ny.gov.

Very truly yours,

Pascale Jean-Baptiste

Pascale Jean-Baptiste
FOIL Officer

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

INTERNAL REVIEW

OF THE SUPERVISION AND CLOSURE OF SIGNATURE BANK

April 28, 2023



Table of Contents

I. Executive Summary	3
II. Background on Signature	8
III. The Supervision of Signature	12
A. Overview of Continuous Examination Program	12
B. Signature Examinations and Supervisory Findings	14
1. 2019 Examination Cycle	14
2. 2020 Examination Cycle	19
3. 2021 Examination Cycle	23
4. 2022 Examination Cycle	28
C. Signature's CAMELS Ratings Downgrade.....	30
IV. DFS Decision to Take Possession of Signature	31
A. Events Leading up to Signature's Collapse.....	31
B. Signature's Collapse.....	35
V. Review Findings.....	40
A. Summary	40
B. Recommended Improvements to Bank Supervision	42
VI. Conclusion.....	46
Appendix.....	47

I. Executive Summary

On Sunday, March 12, 2023, the New York State Department of Financial Services (“DFS”) took possession of Signature Bank (“Signature” or the “Bank”) and appointed the Federal Deposit Insurance Corporation (“FDIC,” and together with DFS, the “Regulators”) as receiver. The following day, the Superintendent of Financial Services, Adrienne A. Harris, directed DFS’s Office of General Counsel to review the collapse of Signature and produce a public report documenting the events that led to Signature’s failure and identifying opportunities to improve DFS’s supervisory process.

The review focused on the period January 1, 2019, through March 12, 2023, although developments outside of that time frame were considered when necessary to understand the history of the Bank. As part of this review, DFS collected documents relating to the supervision and examination of the Bank, including Reports of Examination, Supervisory Letters, Signature’s responses to the Supervisory Letters, work papers, and internal documents. Examiners and supervisors responsible for DFS’s oversight of the Bank during the relevant time period were interviewed to understand the recent growth and development of the Bank and to contextualize Signature’s condition entering March 2023. DFS employees involved in the monitoring of Signature during the first weeks of March 2023, including those involved during the weekend of March 10, were interviewed to understand the sequence of events leading up to the decision to take possession of Signature on March 12 and to appoint the FDIC as receiver. With the generous cooperation of the FDIC, DFS participated in interviews conducted by the FDIC of its own staff.

Before its collapse, Signature was a full-service commercial bank chartered in 2001 by DFS’s predecessor, the New York State Banking Department. The Bank’s business model focused on providing high-touch service to mid-sized commercial companies. Its main lines of business were commercial real estate and commercial and industrial lending. While the Bank grew steadily from its founding, growth accelerated significantly between 2019 and 2021. Over that time, Signature’s total assets more than doubled, growing from \$51 billion at the end of 2019 to \$74 billion in 2020 and \$118 billion at the end of 2021.

Due to its focus on cultivating commercial clients, Signature constantly maintained a high percentage of uninsured deposits. As of year-end 2018, Signature's uninsured deposits totaled \$30 billion, representing 63 percent of the Bank's total assets. By December 31, 2021, uninsured deposits had more than tripled, totaling approximately \$98 billion, representing 82 percent of Signature's total assets. Signature's reliance on uninsured deposits posed a risk that the Bank had to manage carefully to ensure adequate liquidity while maintaining a safe and sound business. The essential risk is that uninsured depositors may quickly withdraw their deposits if there is any risk that their bank may fail, because their uninsured status means they may not fully recover their funds in the event of a failure.

The Bank's growth outpaced the development of its risk control framework. Issues relating to the Bank's liquidity risk management were identified in the Reports of Examination issued by the Regulators for the years 2018 and 2019. These issues were highlighted in the Report of Examination as either a matter requiring board attention ("MRBA") or a supervisory recommendation ("SR"). An SR is a general recommendation that a bank should address, while an MRBA represents a more material concern that requires the immediate attention and prioritization by a bank's board of directors. For 2018, the Regulators identified an MRBA related to several breaches of the liquidity risk metrics established by Signature's Board of Directors (the "Board").¹ The following year, the Regulators added a new MRBA related to liquidity risk management that identified material weaknesses in Signature's contingency funding plan ("CFP") and liquidity stress testing, including unsupported critical assumptions and insufficient liquidity stress testing. At the conclusion of the 2019 examination cycle, given the number and seriousness of the findings, the Regulators downgraded Signature's liquidity rating from a '2,' representing a "satisfactory" rating, to a '3,' representing a "less than satisfactory rating."² After the downgrade, although Signature addressed certain regulatory findings relating

¹ The Bank remediated the underlying issues, and the Regulators closed this MRBA as part of the Report of Examination issued for the year ended 2020.

² The Regulators used the CAMELS rating system, which is more fully detailed in the Appendix, to evaluate the condition of the Bank.

to liquidity risk management, the liquidity contingency planning MRBA issued in connection with the 2019 examination cycle remained outstanding.

In September 2022, responding to the most recent liquidity target review findings, Signature stated that it was implementing reforms that management believed would finally resolve the liquidity contingency planning MRBA. These reforms would be tested during the next liquidity target review beginning in October 2022. Field work for the target review was completed in December 2022, and the resulting Supervisory Letter was being drafted at the time Signature failed. Although unfinished, the draft Supervisory Letter found that Signature failed to adequately address the open liquidity MRBA and contemplated adding another MRBA relating to Signature's inadequate audit review of liquidity and funds management and several new SRs.

The immediate cause of the Bank's failure was a propulsive run on deposits instigated by the consecutive announcements, first on March 8 that Silvergate Bank ("Silvergate") was liquidating itself, and then on March 10 that the California Department of Financial Protection and Innovation was taking possession of Silicon Valley Bank ("SVB") following an unprecedented run on its deposits. The resulting panic caused a run on Signature that was faster than any other bank run in history, save the run that had just taken place at SVB.³ Driven by advances in digital banking and the rapid spread of information and rumors through social media, Signature experienced a runoff of \$18.6 billion in deposits in a matter of hours, reducing the Bank's deposit base by 20 percent in one day. The run placed a significant strain on Signature's liquidity position. The Bank needed an emergency loan from the Federal Reserve Bank of New York ("FRBNY") late that night to close a cash deficit of nearly \$4 billion.

Signature's failure to remediate the outstanding liquidity management issues undoubtedly contributed to its collapse. Given the prevailing panic, and the size and speed of the deposit run

³ See Frank Salmon, Axios, *The Largest Bank Run in History*, available at: <https://www.axios.com/2023/03/11/the-largest-bank-run-in-history>.

that occurred at SVB, it is unclear whether, if the Bank had opened on March 13 in a better liquidity position, it could have survived a digital-age deposit run.

To open in a safe and sound manner on Monday, March 13, Signature needed to identify and pledge assets that were immediately acceptable to the FRBNY to raise the liquidity needed to meet outstanding and new deposit withdrawal requests. Over the weekend beginning March 10, however, Signature was unable to provide reliable and consistent data about its available liquidity or pending deposit withdrawal demands. To project adequate liquidity to open on Monday, Signature repeatedly represented that it would be able to pledge assets that it knew the FRBNY would either not accept or would take weeks to review. For example, through Sunday afternoon, Signature represented to the Regulators that nearly \$6 billion in liquidity from its commercial real estate portfolio would “Very Likely” be available to the Bank on Monday.⁴ The Regulators were aware, however, that it would take weeks for the FRBNY to review and value that portfolio.

Over the weekend, Signature’s estimates of pending deposit withdrawals increased, going from \$2 billion on Saturday evening to \$4 billion Sunday morning, and then to \$7.4 billion to \$7.9 billion by Sunday evening. These numbers represented known deposit withdrawals. Despite the run on Friday, March 10 and the negative news over the weekend, Signature insisted that additional withdrawals would be minimal on Monday. The Regulators assessed this projection as unrealistic and that the Bank needed to be prepared to handle another significant deposit run. The Bank’s failure to present a credible liquidity plan and the lack of interest from any potential acquirers led DFS to take possession of Signature on Sunday, March 12 and appoint the FDIC as receiver.

While the role of digital assets in Signature’s failure has been the subject of speculation, the percentage of digital asset customer withdrawals on March 10 was relatively proportional to the percentage of digital asset customers in the deposit base overall. The bigger issue for Signature was that the Bank had a high concentration of uninsured deposits and was perceived as a crypto

⁴ See Figure 12.

bank. In that sense, it was closely associated with Silvergate and SVB, the latter of which was another bank with a high concentration of uninsured deposits that was associated with the broader technology and innovation industry. This association linked the banks together in the eyes of depositors and the media, sparking the run on Signature immediately after the news broke of SVB's failure.

Although the Regulators identified issues relating to liquidity contingency planning, the Bank's slow response to remediate these issues despite the rapid growth of its uninsured deposits indicate areas in which supervision could be improved. Based on the results of the review, DFS identified the following necessary improvements to its bank supervisory process:

- *Update policies and procedures.* Signature's collapse underscores the speed at which the modern financial system moves. Inefficiencies led to delays in issuing examination findings to the Bank. DFS's policies and procedures need to be updated to insure that DFS addresses risks at banking organizations in real-time.
- *Rebuilding examination capacity.* Internal staff constraints limited DFS's ability to staff examinations adequately. While Superintendent Harris has prioritized hiring since she was appointed to lead DFS in September 2021—hiring over 200 people in 2022—DFS still has more work to do to rebuild its examination capacity. A larger pool of examiners and supervisors would help to close the timing gap between the end of examinations and the issuance of Reports of Examination and Supervisory Letters.
- *Operational stress testing.* Faced with the pressures created by the run on Friday, March 10, Signature struggled to provide timely and accurate information to the Regulators on the key issues of liquidity and outgoing wire requests. DFS will consider whether banks need to conduct table-top exercises demonstrating their operational readiness to collect and produce accurate financial data at a rapid pace and in a stress scenario.
- *Escalating regulatory issues.* While the Regulators used available tools to identify risks for the Bank, the Bank failed to address key concerns fully and in a timely manner at the same time that it was rapidly expanding its business operations. DFS's internal processes need clearer guidelines for when examiners need to escalate regulatory concerns or

instances in which a bank fails to remediate findings in a timely fashion. DFS will establish clear escalation procedures to address repeat regulatory findings.

- *Liquidity risk modeling.* The rapid collapse of Signature underscores the need to revisit the assumptions used to model and manage liquidity risk. In particular, both the types of Signature's depositors that ran and the speed at which they initiated withdrawals far outpaced assumptions many institutions use to model and assess liquidity risk. As a broader issue, the assumptions about bank customer behavior codified in the liquidity coverage ratio regulation may need to be reconsidered.
- *Strengthen regulatory tools.* DFS will work with stakeholders to identify and develop appropriate regulatory tools to hold executives accountable for misconduct that leads to the failure of a banking organization and to address the dissemination of inaccurate information that provoke bank runs.

II. Background on Signature

Signature was a New York-based, full-service commercial bank that commenced operations on May 1, 2001. Initially, Signature operated only in the New York City area and catered to wealthy individuals and middle-market business managers. In March 2004, the Bank completed its initial public offering and began trading on the NASDAQ under the symbol SBNY. Over the years, Signature grew and expanded its services and operations, focusing primarily on commercial real estate and commercial and industrial lending, which were funded mainly through uninsured deposits gathered from mid-sized companies. Through its single-point-of-contact model, Signature's private client offices served the needs of privately owned businesses, their owners, and senior managers. Signature's subsidiaries provided brokerage, asset management, insurance, financing, and leasing services.

Signature engaged in several consequential initiatives in 2018 and 2019. In 2018, the Bank launched its new Fund Banking Division, a group dedicated to providing financing and banking services to the private equity industry. In 2019, the Bank formed a Venture Banking Division to serve venture capital firms and the portfolio companies in which they invest. That same year, the Bank announced the establishment of its mortgage servicing banking initiative, specializing in

providing treasury management products and services to residential and commercial mortgage servicers. Signature also launched a private client group banking team focused on the digital asset industry, and in January of 2019, the Bank launched a new blockchain-based digital payment platform called Signet. Signet allowed for real-time payments among Signature's commercial clients and connected cryptocurrency market participants by offering around-the-clock execution.

Signature also grew geographically, expanding to the West coast in early 2018. By December 31, 2022, Signature operated 40 private client offices located throughout the metropolitan New York area, as well as Connecticut, California, Nevada, and North Carolina.

Signature's growth accelerated between 2019 and 2021. In 2021, Signature's total assets grew roughly 60 percent over the prior year, to \$118.45 billion, up from \$73.89 billion at the end of 2020. Signature's total liabilities grew to \$110.60 billion by year-end 2021, up from \$68.06 billion at year-end 2020. Signature's balance sheet growth was largely driven by material deposit growth, which totaled \$23 billion and \$43 billion in 2020 and 2021, respectively. As a result of material asset growth in 2020, management consummated two capital raises to augment capital. By December 31, 2022, Signature had \$110.36 billion in total assets, \$102.35 billion in total liabilities, and \$88.59 billion in total deposits.

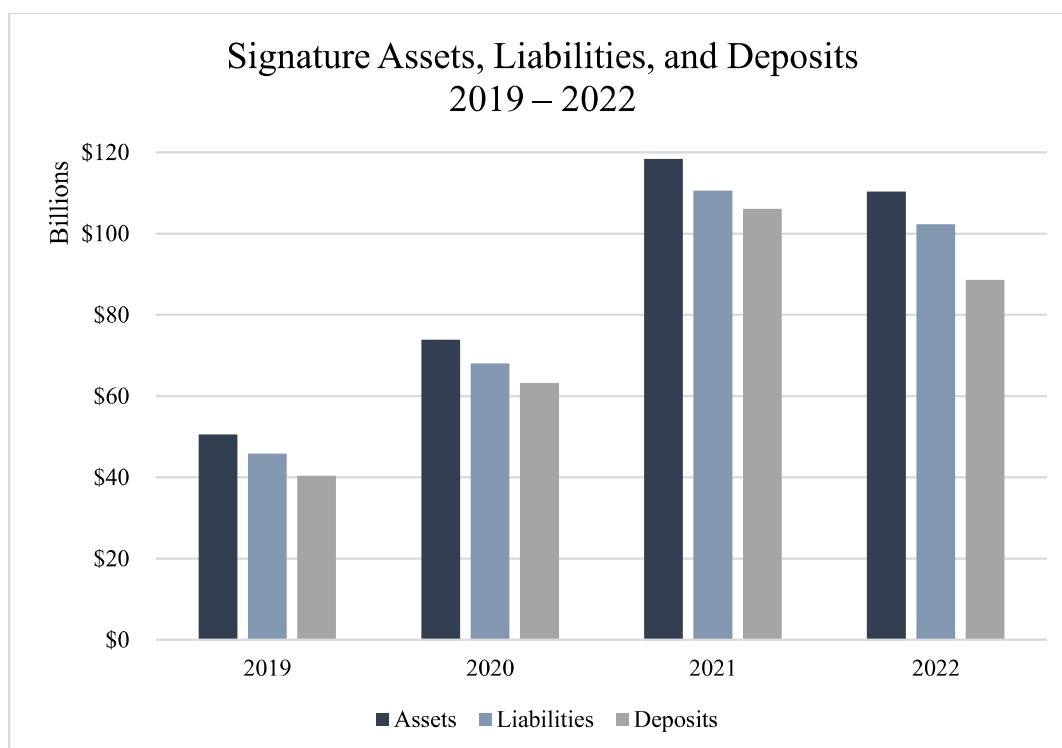


Figure 1. Signature Assets, Liabilities, and Deposits 2019 – 2022.

By 2020, digital assets-related deposits accounted for the Bank’s largest growth segment with \$8 billion, or approximately 35 percent, of total deposit growth. In 2021, Signature again saw an influx of digital assets deposits, with growth of \$21 billion. This represented 49 percent of total deposit growth and 30 percent of Signature’s total deposits. These deposits were represented by a variety of depositor types, including digital assets exchanges, stablecoin issuers, digital custody platforms, mining operations, digital lenders, and operating accounts for various digital asset-related businesses. The Bank itself did not hold, custody, or trade in cryptocurrencies. The Signet platform also attracted digital asset customers, and in 2022, Signature launched a new feature that allowed Signet clients to initiate real-time Fedwire Funds Service transactions through the platform.

By the fourth quarter of 2022, given the turmoil in the digital assets market, Signature announced a plan to decrease digital assets-related deposits by reducing the size of individual client relationships. Signature intended to reduce both individual client and overall digital asset deposit

concentration levels to achieve a more stable deposit base. As of December 31, 2022, Signature reported that digital assets-related deposits accounted for 20 percent of total deposits.

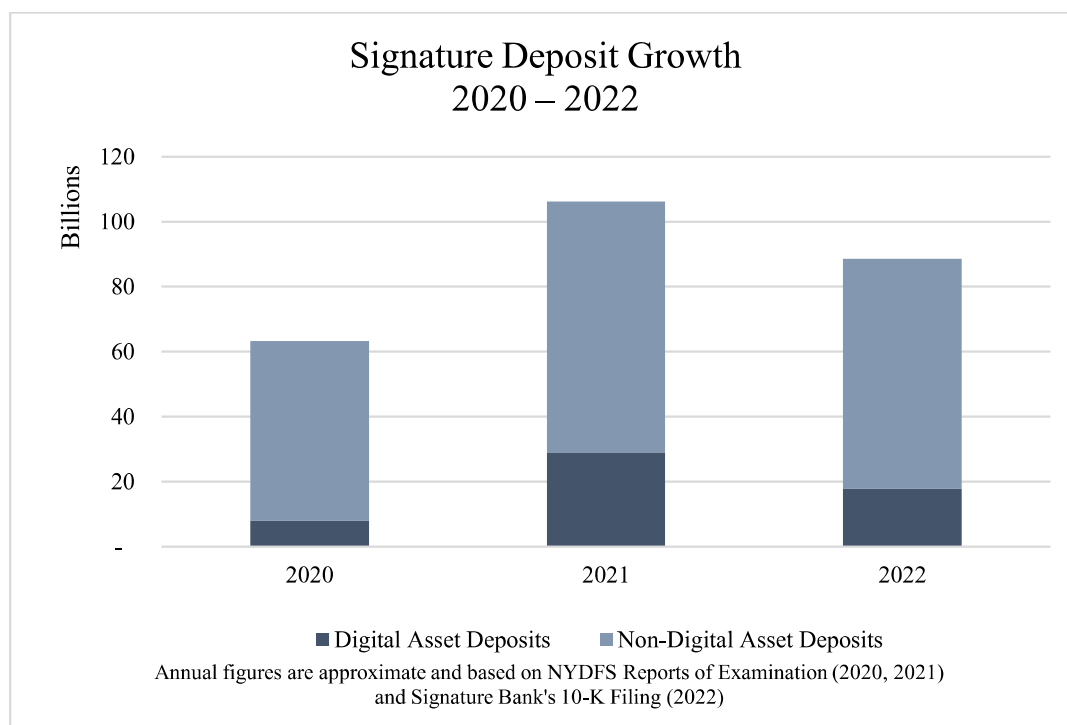


Figure 2. Signature Deposit Growth 2020 – 2022.

In addition to substantial growth in the digital assets customer base, the Bank rapidly grew its Fund Banking portfolio. As part of the multi-year business strategy, during 2020 and 2021, Bank management dedicated considerable time and capital to its Fund Banking Division to, among other reasons, diversify its commercial real estate concentration. In less than four years, this portfolio became the Bank's largest asset, representing a significant capital concentration. Over this period, management greatly exceeded its growth projections, as the Fund Banking portfolio grew from \$4.4 billion to \$26 billion, a growth of 490 percent in just two years. At year-end 2021, Fund Banking accounted for 41 percent of the Bank's total loan portfolio.

<i>(in thousands)</i>	December 31, 2022	December 31, 2021
Mortgage loans:		
Multi-family residential property	\$ 19,511,293	16,113,590
Commercial property	11,967,703	10,682,276
Acquisition, development and construction loans	1,646,659	1,514,011
1-4 family residential property	389,886	450,782
Home equity lines of credit	55,203	69,156
Total mortgage loans	33,570,744	28,829,815
Commercial & Industrial loans:		
Fund banking	27,732,316	26,300,495
Specialty finance	6,718,199	5,276,337
Other commercial and industrial	6,184,531	3,689,486
PPP loans	129,700	835,743
Consumer	7,634	7,509
Total other loans	40,772,380	36,109,570
Net deferred fees and costs and other unearned income	(50,720)	(76,587)
ACLLL	(489,862)	(474,389)
Net loans	\$ 73,802,542	64,388,409

Figure 3. Signature's Loan Portfolio (Excerpt from the Bank's 2022 10-K).

III. The Supervision of Signature

A. Overview of Continuous Examination Program

The Regulators jointly supervised Signature under a continuous examination program. Pursuant to this program, the Regulators conducted a series of onsite target reviews during each annual examination cycle. At the conclusion of these target reviews, a comprehensive Report of Examination memorializing all of the findings from that examination cycle was provided to the Bank.

At the beginning of each annual examination cycle, the Regulators conferred and determined the subject areas and scope for the target reviews. The number, focus, and prioritization of target reviews conducted each year varied depending on the assessed risk profile of Signature, ongoing events, and outstanding examination findings.

The Regulators coordinated the allocation of resources to staff the examination program. For Signature's supervision, DFS assigned one dedicated full-time central point-of-contact—an examiner responsible for supervising the examination process and acting as the dedicated contact

point for DFS. DFS also assigned additional examiners to supervise and examine Signature, depending on the type and quantity of target reviews scheduled for each year and based on a discussion between the Regulators about how to best staff the examinations. DFS employees were assigned to conduct various target reviews alongside staff assigned by the FDIC. The work of these examiners was supported by DFS supervisors and specialists who reviewed the field work, provided feedback and guidance, and helped draft Supervisory Letters, Reports of Examination, and other regulatory correspondence.

The Regulators conducted 20 target reviews of Signature from 2019 through 2022. Each target review began with a “first day letter” from the Regulators outlining the scope of the target review and the information that Signature needed to provide. Before the onset of the COVID-19 pandemic, examinations were conducted onsite at Signature, typically with DFS and FDIC examiners sharing a conference room at the Bank, reviewing documents, and jointly interviewing Bank staff. Once the pandemic commenced, examinations were conducted remotely, with information shared through a secure online portal and meetings or interviews conducted via an online meeting service. The Regulators would hold interim meetings with the management to discuss target review findings. The results of each examination were then reviewed and analyzed by the Regulators to finalize the examination findings for presentation to the Board.

At the conclusion of each target review, the Regulators presented the target review findings to Bank management and issued joint Supervisory Letters to Signature summarizing the findings. Issues requiring remediation were identified as an MRBA or SR according to the significance of the issue. Within 45 days of receiving a Supervisory Letter, Signature was required to provide the Regulators with a plan and timeframe for how the Bank would remediate regulatory findings.

For any bank, MRBAs represent significant issues that necessitate immediate board attention, and boards are required to place high priority on remediating such issues. Remediation of all MRBAs is critical to the overall risk management and internal control processes of a bank. A failure to adequately correct supervisory concerns exposes banks to internal and external adverse events, which could affect the overall financial condition of the institution. SRs are material issues that require remediation by senior management but do not rise to the level of MRBAs. To

facilitate regulatory oversight, an MRBA can be broken down into several SRs that the regulators can assess and close separately within the MRBA.

At the conclusion of each annual examination cycle, the Regulators discussed the findings from all of the target reviews with the Bank's management at an exit meeting. The Regulators then included their findings in a joint Report of Examination issued to the Bank. These reports summarized the Regulators' overall assessment of Signature and the Regulators' examination findings from the target reviews conducted during that examination cycle. The reports would assign a rating, from '1' (strongest performance) to '5' (weakest performance), for each of the examination components: capital adequacy, asset quality, management capability, earnings, liquidity, and sensitivity to market risk (collectively known as "CAMELS" ratings).⁵ Based on the component ratings, Regulators would assign a composite rating representing the Regulators' overall assessment of the condition of the Bank. The findings of each Report of Examination also were communicated to the Board at a board meeting attended by DFS and the FDIC on an annual basis.

B. Signature Examinations and Supervisory Findings

1. 2019 Examination Cycle

For the 2019 examination cycle, the first target review of Signature commenced on January 2, 2019. The examination cycle's scope included a review of all CAMELS components and incorporated six target reviews conducted throughout 2019. The target reviews covered the following areas: information technology; credit risk management; interest rate risk; strategic planning; Bank Secrecy Act/Anti-Money Laundering ("BSA/AML") and Office of Foreign Asset Control "OFAC") compliance; and liquidity risk management.

⁵ See CAMELS Ratings Definitions, Appendix.

Target Review	Target Review Start Date	Supervisory Letter Issue Date
Information Technology	January 2, 2019	September 9, 2019
Credit Risk Management	May 20, 2019	September 9, 2019
Interest Rate Risk	June 24, 2019	October 24, 2019
Strategic Planning	July 29, 2019	December 30, 2019
BSA/AML and OFAC	September 23, 2019	May 4, 2020
Liquidity Risk Management	October 21, 2019	July 6, 2020

Figure 4. 2019 Target Review Schedule for Signature.

At the conclusion of the 2019 examination cycle, there were seven outstanding MRBAs: two MRBAs related to liquidity risk management; three MRBAs related to the BSA/AML and OFAC program; one MRBA related to commercial real estate; and one MRBA related to model risk management.⁶ Weaknesses in liquidity risk management practices led the Regulators to downgrade the Bank's CAMELS liquidity component rating from '2' to '3'. Overall, 88 SRs were outstanding at the end of the 2019 examination cycle. The management exit meeting was held on September 23, 2020, to summarize the 2019 examination findings. On October 2, 2020, the Regulators sent a letter to Signature's Board outlining the regulatory findings and enclosing a copy of the 2019 Report of Examination. The meeting with the Board to present the findings was held on October 21, 2020.

Regulatory Findings on Liquidity Risk Management

Regulators began a liquidity target review on October 21, 2019. On June 16, 2020, the Regulators presented the review findings to the Bank's senior management. On July 6, 2020, the Regulators issued a Supervisory Letter in which they summarized their assessment of liquidity risk management, including management practices, policies, procedures, early warning indicators, the CFP, and stress tests. The Regulators also reviewed deposit base segmentation,

⁶ One MRBA on the BSA/AML and OFAC program remained open since the 2018 examination cycle and the other two MRBAs were new. The MRBA related to commercial real estate remained open since the 2016 examination cycle. The MRBA on model risk management was opened during the 2018 examination cycle.

the stability of the uninsured deposit base, the level of on-balance sheet liquidity, governance and oversight, and assumption development and support. The Bank was required to provide written responses to the Supervisory Letter within 45 days evidencing that the MRBAs and SRs were being adequately addressed.

The Supervisory Letter advised Signature that its funds management practices, liquidity contingency planning, liquidity stress testing (“LST”), and the internal controls over the liquidity risk management all required improvement. In particular, the Regulators raised the following two critical MRBAs related to liquidity: (1) board risk appetite, which was identified during the 2018 examination review cycle and remained unresolved; and (2) liquidity contingency planning, which was a new critical finding.

The Regulators observed that the Board’s stated liquidity risk appetite was “low.” However, the liquidity stress test results, when combined with the weaknesses identified with the Bank’s funds management practices, were inconsistent with the Board’s “low” liquidity risk appetite. The Regulators observed that a critical component of the Bank’s liquidity risk profile was the ability to fund operations in the event of a liquidity stress event. The liquidity stress test results showed that the Bank forecasted significant net cash outflows over a 30-day period that would significantly exceed all available sources of primary and secondary liquidity. Although Signature projected that it could rely on the sale of a material portion of its loan portfolio to fund operations once primary and secondary liquidity was exhausted, the Regulators assessed that Signature’s assumption about its ability to sell a material portion of its loan portfolio was not supported with any empirical analysis. More importantly, due to the lack of documentation supporting Signature’s LST, the Regulators were not confident that Signature was adequately capturing and planning for the magnitude of a potential stress scenario.

The Regulators also found that the Bank’s risk management practices were not commensurate with the institution's complexity, risk profile, and scope of operations due to the weaknesses with liquidity contingency planning, LST, and internal controls.

The Regulators identified multiple material weaknesses and issued 18 SRs requiring corrective actions in the following areas:

- Assumptions for deposit run-off in adverse LST scenarios
- Deposit growth assumption in the prompt corrective action (“PCA”) stress test scenario
- Impact of high-rate deposits in the PCA LST scenario
- Model run-off rates for municipal deposits
- Documented support for the deposits quantitative risk-rating framework
- Depositor’s sensitivity to the Bank’s condition as part of the deposit rating framework
- Support for the assignment of the average sampled depositor runoff to the remaining un-sampled deposit portfolio
- Establishment of metrics and limits that ensure that the level of liquidity is sufficient at each intervening time interval, up to and including the final time period
- Sensitivity testing of key assumptions in the LST
- LST model documentation
- An adequate validation of the LST that includes effective challenge
- Documenting the process for identifying specific liquidity risks and developing and selecting LST scenarios
- Frequency of liquidity stress tests for scenarios that significantly impact the liquidity position
- Length of the time horizon of liquidity stress tests
- Potential impact on capital from actions taken to raise liquidity
- The scope of the periodic CFP operational test that needed to be expanded beyond the confirmation of borrowing line availability
- The system of effective challenge for the liquidity stress modeling methodology
- Internal controls relating to the liquidity risk management, including the internal audit of the liquidity function

The Regulators observed that while the Board and management adequately monitored the daily liquidity position of the Bank, the identified weaknesses prevented the Bank from appropriately understanding the potential effects of adverse liquidity events and emergency cash flow needs.

The Regulators also noted a funding concentration in uninsured deposits. Signature’s primary funding source was deposits, which represented 86 percent of total funding. The deposit base was composed primarily of large commercial clients providing large uninsured deposits that totaled \$33 billion and represented 82 percent of total deposits. As of December 31, 2019, Signature’s liquid assets were comprised of cash, interest-bearing balances, unpledged agency

securities, and loans held for sale. These represented 10 percent of total assets. Secondary sources of liquidity included \$2.2 billion in available credit for repurchase agreements, \$2.1 billion in unsecured credit lines with various financial institutions, and \$6.2 billion in remaining borrowing capacity with the Federal Home Loan Bank (“FHLB”).

Signature’s management considered the uninsured deposit base to be fairly stable due to the Bank’s relationships with its clients. However, the Regulators noted in the Supervisory Letter that the liquidity position’s most critical exposure comes from the potential volatility associated with the high level of uninsured deposits. The Regulators noted significant weaknesses in the Bank’s liquidity contingency planning, including that the risk exposure presented by the concentration of uninsured deposits was not sufficiently identified, measured, and monitored.

Management Response to Regulatory Findings on Liquidity Risk Management

On August 21, 2020, Signature responded to the Regulators outlining the steps the Bank had taken or planned to take to remediate the regulatory findings. The Bank stated that it contracted a third-party provider to strengthen the modeling, documentation, and reporting for various liquidity and funds management applications. Bank management indicated it expected to receive that model by September 2020. The Bank planned to test, design, and implement the model during the last quarter of 2020 and planned to contract an additional third-party provider to validate the model and funds management process.

With respect to the MRBA on board risk appetite, the Bank committed to remediating the findings by September 30, 2020. The Bank also committed to remediating the MRBA on liquidity by June 30, 2021, with various interim target dates for individual SR findings. On August 21, 2020, the Bank stated that it had implemented corrective actions with respect to deposit growth assumptions in the PCA stress test scenario and impact of high-rate deposits in the PCA LST scenario SR findings.

2019 Report of Examination and CAMELS Rating

At the conclusion of the 2019 examination cycle, the Regulators issued a Report of Examination, rating the overall condition of the Bank as satisfactory. See Uniform Financial Institutions

Rating System Figure 5 below. Despite the liquidity rating downgrade, and the need to improve the BSA/AML program, the Regulators found that overall the Board and senior management appropriately identified, measured, monitored, and controlled the risks of the institution's activities. The Regulators also noted that throughout the examination cycle, Bank management continued to remediate outstanding SRs, although continued improvement was necessary in certain areas, including several risk management processes.

Uniform Financial Institutions Rating System

	Current Exam	Prior Exam	Prior Exam
Examination Start Date	01/02/2019 / J	01/02/2018 / J	01/09/2017 / J
Examination As Of Date	12/31/2019 / J	12/31/2018 / J	12/31/2017 / J
Composite Rating	2	2	2
Component Ratings:			
Capital	2	2	2
Asset Quality	2	2	2
Management	2	2	2
Earnings	2	2	2
Liquidity	3	2	2
Sensitivity to Market Risk	2	2	2
Information Technology	2	2	2
Compliance ¹	2		
Community Reinvestment Act ¹	S		

¹ Examination dated 04/01/2019

Figure 5. Uniform Financial Institutions Rating System from Report of Examination on Signature as of December 31, 2019.

2. 2020 Examination Cycle

For the 2020 examination cycle, the first target review of Signature commenced on January 2, 2020. The examination cycle's scope included a review of all CAMELS components and incorporated the following target reviews conducted throughout 2020: information technology; BSA/AML and OFAC; liquidity risk management; and internal audit.

Target Review	Review Start Date	Supervisory Letter Issue Date
Information Technology	January 2, 2020	November 4, 2020
BSA/AML and OFAC Compliance	September 21, 2020	March 5, 2021
Liquidity Risk Management	November 30, 2020	July 9, 2021
Internal Audit	October 6, 2020	September 15, 2021

Figure 6. 2020 Target Review Schedule for Signature.

At the conclusion of the 2020 examination cycle, there were three MRBAs outstanding: one MRBA related to liquidity risk management, outstanding since the 2019 examination cycle; one MRBA related to model risk management, outstanding since the 2018 examination cycle; and one MRBA related to BSA/AML and OFAC compliance, outstanding since the 2018 examination cycle. Overall, 61 SRs remained unresolved at the end of the 2020 examination cycle.

The management exit meeting was held on November 19, 2021, summarizing the findings of the 2020 examination cycle. On November 19, 2021, the Regulators sent a letter to Signature's Board with the regulatory findings and attaching a copy of the 2020 Report of Examination. The meeting with the Board to present the regulatory findings was held on December 15, 2021.

Regulatory Findings on Liquidity Risk Management

The Regulators began a liquidity target review on November 30, 2020. On June 8, 2021, the Regulators presented the review findings to the Bank's senior management. On July 9, 2021, the Regulators issued a Supervisory Letter to the Bank. The liquidity review aimed to assess the adequacy of the liquidity position and funding risk management, particularly with respect to the contingency funding plan and its ability to provide sufficient measurement, management, and control over the potential impacts of uninsured deposits during periods of stress. The LST also was evaluated, including the appropriateness of the test's underlying assumptions, and its ability to provide reliable feedback for decision-making. The target review assessed the effectiveness of

internal controls for liquidity and funding risks. Examiners reviewed management's progress with resolving prior liquidity-related MRBAs and SRs as well.

The Regulators closed the 2018 MRBA related to board risk appetite due to significant improvements made by the Bank to the funding plan for the most severe stress test scenario. Regulators considered the funding plan better supported with empirical analysis, including a more realistic level of loan sales and a cumulative tiered liquidity coverage requirement for relationships that exceed \$250 million in deposits as an additional tool to measure, monitor, and control uninsured deposit exposure. The Regulators also closed three out of 18 SRs from the 2019 liquidity contingency planning MRBA.

The Regulators observed that although the management had begun addressing the liquidity risk management weaknesses, funds management practices and liquidity contingency planning required improvement. Further, management needed to identify, document, and review stress scenarios that were relevant to the Bank and presented a range of liquidity and funding challenges to be approved by the Board. In particular, scenario identification, testing frequency, testing duration, and development of a metric that linked scenario outcomes to the impact on capital required improvement and remained outstanding.

Management Response to Regulatory Findings on Liquidity Risk Management

On August 18, 2021, the Bank responded to the Regulators, acknowledging the outstanding SRs on liquidity. The Bank stated that it was in the process of adopting the new liquidity model which, once adopted, would provide for a comprehensive and robust liquidity monitoring program. The Bank committed to remediating the outstanding SRs by June 30, 2022, with various interim target dates for remediation of individual SR findings.

2020 Report of Examination and CAMELS Rating

At the conclusion of the 2020 examination cycle, the Regulators issued a Report of Examination to the Bank, rating the overall condition of the Bank as satisfactory. See Uniform Financial Institutions Rating System Figure 7 below. While management remediated certain MRBAs and SRs, the MRBAs relating to liquidity risk management, BSA/AML, and model risk management

remained outstanding. Management was working to identify appropriate stress testing scenarios, developing documentation, frequencies, and metrics to implement the new liquidity model. The Regulators concluded that Signature's liquidity risk management practices still required improvement and that credit risk had increased due to the ongoing pandemic. Concerns over liquidity risk management were partially offset by a substantial increase in on-balance sheet liquidity. Overall, the Regulators concluded the Board and senior management appropriately identified, measured, monitored, and controlled the risks of the institution's activities.

The Regulators noted that the level of uninsured deposits was approximately 76 percent of total assets as of December 31, 2020—an increase from 66 percent of total assets at December 31, 2019. Approximately 59 percent of deposit growth was related to new digital asset, mortgage banking, venture banking, and West coast growth initiatives.

At the same time, on-balance sheet liquidity—the sum of cash, interest bearing balances, unpledged available for sale securities, and loans held for sale compared to total assets—increased year over year from 11 percent to 25 percent. The Regulators attributed the increase in liquidity to an \$11.5 billion increase in cash, driven by a \$22.9 billion (or 57 percent) increase in deposits. While on-balance sheet liquidity increased significantly from the prior year, the Regulators emphasized that sufficiency of Signature's liquidity was unclear and could not be accurately assessed due to the outstanding issues with the Bank's liquidity stress testing.

Uniform Financial Institutions Rating System

	Current Exam	Prior Exam	Prior Exam
Examination Start Date	01/01/2020 / J	01/02/2019 / J	01/02/2018 / J
Examination As Of Date	12/31/2020 / J	12/31/2019 / J	12/31/2018 / J
Composite Rating	2	2	2
Component Ratings:			
Capital	2	2	2
Asset Quality	2	2	2
Management	2	2	2
Earnings	2	2	2
Liquidity	3	3	2
Sensitivity to Market Risk	2	2	2
Information Technology	2	2	2
Compliance ¹	2		
Community Reinvestment Act ¹	S		

¹ Examination dated 04/01/2019

Figure 7. Uniform Financial Institutions Rating System from Report of Examination on Signature as of December 31, 2020.

3. 2021 Examination Cycle

For the 2021 examination cycle, the first target review of Signature commenced on April 12, 2021. The examination cycle's scope included a review of all CAMELS components and incorporated the following target reviews conducted throughout 2021: information technology; BSA/AML and OFAC; model risk management; liquidity risk management; and current expected credit losses.

Target Review	Review Start Date	Supervisory Letter Issue Date
Information Technology	April 12, 2021	February 3, 2022
BSA/AML and OFAC Compliance	July 19, 2021	February 10, 2022
Model Risk Management	May 10, 2021	June 17, 2022
Liquidity Risk Management	November 8, 2021	July 28, 2022
Current Expected Credit Losses	November 8, 2021	August 23, 2022

Figure 8. 2021 Target Review Schedule for Signature.

At the conclusion of the 2021 examination cycle, there was one MRBA outstanding: the MRBA on liquidity contingency planning, which remained unresolved since the 2019 examination cycle. Overall, 42 SRs remained open at the end of the 2021 examination cycle.

The management exit meeting was held on November 15, 2022, to summarize the findings of the 2021 examination cycle. On December 13, 2022, the Regulators sent a letter to Signature's Board with the regulatory findings and attaching a copy of the 2021 Report of Examination. The findings were presented to the Board at a meeting held on February 15, 2023.

Regulatory Findings on Liquidity Risk Management

The Regulators began a liquidity target review on November 8, 2021. On June 7, 2022, the Regulators presented the review findings to the Bank's senior management. On July 28, 2022, the Regulators issued a Supervisory Letter to the Bank. The purpose of the liquidity target review was to assess management's progress in addressing the outstanding MRBA and 15 previously issued SRs that remained outstanding. At the conclusion of the target review, the Regulators were able to close only one SR, as management failed to implement timely corrective actions to remediate the MRBA and the 14 remaining SRs.⁷

The Regulators concluded that liquidity remained less than satisfactory and that Bank management had made inadequate progress in addressing the findings from the 2019 liquidity target review: Management did not identify an appropriate liquidity buffer, did not demonstrate the ability to adequately measure and control the impact of deposit volatility during stress events, and did not properly assess the likelihood of and survival requirements for a variety of idiosyncratic and macroeconomic stress events.

Between the end of 2019 and September 30, 2021, the Bank's assets more than doubled, primarily because of deposit growth. A substantial portion of the growth was fueled by expansion into new business activities and deposit customer types, such as mortgage servicing

⁷ The Regulators closed additional three SRs on liquidity before the 2021 Report of Examination was presented to the Board.

and digital assets-related deposits, significantly increasing the level of large uninsured deposits. As of September 30, 2021, uninsured deposits totaled \$87 billion, or 95 percent of total deposits. On-balance sheet liquidity, consisting of cash, interest-bearing balances, and unpledged securities, totaled \$43.2 billion, or 40 percent of total assets. Due to the combination of high deposit growth, funding concentrations, and the unknown deposit stability, particularly during times of stress, Signature had an increased liquidity risk profile. The Regulators stated that the Bank's increasing liquidity risk profile required comprehensive liquidity risk management practices. Bank management and the Board needed to implement corrective actions to remediate the funds management weaknesses in order to adequately control liquidity risk and limit potential adverse impacts on the financial condition of the Bank.

The Regulators warned the Bank that the Board and management must prioritize remediation of these issues and that failure to do so may result in additional regulatory action.

The Regulators acknowledged that subsequent to the 2021 liquidity target review, Bank management increased efforts to improve liquidity contingency planning and engaged a third-party provider to conduct a deposit study. Bank management indicated it expected to remediate the MRBA by September 2022.

Management Response to Regulatory Findings on Liquidity Risk Management

On September 14, 2022, the Bank sent a letter to the Regulators, stating that Bank management believed that each SR relating to liquidity risk management had been addressed and the related MRBA remediated.

2021 Report of Examination and CAMELS Rating

On December 13, 2022, at the conclusion of the 2021 examination cycle, the Regulators issued a Report of Examination to the Bank, rating the overall condition of the Bank as satisfactory. See Uniform Financial Institutions Rating System Figure 9 below. The Regulators found that the Board and management oversight was satisfactory, however, liquidity risk management practices

continued to require improvement.⁸ Although management was in the process of addressing liquidity risk management weaknesses, the Regulators stated in the Report of Examination that it was imperative for the Bank to hasten its efforts in developing and implementing an appropriate liquidity management framework and a CFP that was commensurate with the Bank's increasing liquidity risk profile and level of funding concentrations.

In particular, funds management practices remained impeded by the lack of a comprehensive CFP and the lack of a validated stress testing model with institution-specific underlying assumptions. The Bank's funding risk profile increased throughout 2020 and 2021, which required the Bank to have strong funds management practices. Since the prior year, the balance sheet had grown by 60 percent because of a significant increase in large uninsured deposits and digital assets-deposits, resulting in uninsured and digital asset industry funding concentrations of 82 percent and 24 percent of total assets, respectively. The deposit base was also concentrated, with four large depositors each with aggregate balances exceeding two percent of total assets and altogether representing 14 percent of total assets. The combination of rapid deposit growth, increasing funding concentrations, and unknown deposit stability contributed to an increasing liquidity risk profile. Bank management believed that the Bank's deposit base was stable, based on the length of client relationships, the number of accounts each client had, and the various types of products that clients utilized at the Bank. However, the management's assumptions about their clients were not well documented and were not substantiated.

The Regulators stated in the 2021 Report of Examination that the Bank's increasing risk profile highlighted the urgent need for robust risk management practices that could enable the Board and management to adequately control liquidity risk and limit potential adverse financial impacts on the Bank. The Regulators acknowledged that the Bank made progress in remediating the MRBA on liquidity and noted that the results of the Bank's corrective actions would be tested during the

⁸ Although Signature's management asserted that it had remediated the outstanding regulatory finding relating to liquidity, Signature's remediation efforts were outside the examination period. The Regulators planned to assess Signature's remediation as part of a liquidity target review scheduled to start in October 2022.

2022 target review.⁹ Specifically, the Regulators noted that the Bank implemented the new liquidity model in 2021 to assist with development of the CFP. The model was a significant improvement over the legacy Excel-based model, as it provided the opportunity to readily identify, measure, and monitor the potential impact of liquidity stress events over a 24-month period. At the same time, the model's documentation had not been finalized, and the model had not been validated.

The Regulators also found that, while the Board and management performance remained satisfactory, there were emerging weaknesses in corporate governance. The Regulators emphasized that it was imperative for the Board and management to ensure that corporate governance and the risk management framework of the Bank maintained pace with the Bank's significant growth and new initiatives. Specifically, the framework needed to be in line with the current size, complexity, and risk profile of the Bank. Accordingly, the Regulators planned to conduct a corporate governance target review in the 2022 examination cycle.

⁹ At the time the Report of Examination for 2021 was presented to the Board, the Regulators had completed the 2022 liquidity target review. The Regulators held multiple close-out meetings with the management to discuss regulatory findings from the target review, and a final exit meeting was in the process of being scheduled when the Bank failed. Although the Supervisory Letter on the 2022 liquidity target review was never finalized, the Regulators identified ongoing problems with the liquidity risk management, and it was evident from the results of the target review that the 2019 MRBA on liquidity would remain open. It was also highly likely that an additional MRBA and more SRs related to liquidity would be issued to the Bank.

Uniform Financial Institutions Rating System

	Current Exam	Prior Exam	Prior Exam
Examination Start Date	01/01/2021 / J	01/01/2020 / J	01/02/2019 / J
Examination As Of Date	12/31/2021 / J	12/31/2020 / J	12/31/2019 / J
Composite Rating	2	2	2
Component Ratings:			
Capital	2	2	2
Asset Quality	2	2	2
Management	2	2	2
Earnings	2	2	2
Liquidity	3	3	3
Sensitivity to Market Risk	2	2	2
Information Technology	2	2	2
Compliance ¹	2		
Community Reinvestment Act ¹	S		

¹ Examination dated 04/01/2019

Figure 9. Uniform Financial Institutions Rating System from Report of Examination on Signature as of December 31, 2021.

4. 2022 Examination Cycle

The 2022 examination of Signature Bank was in progress when DFS took possession of the Bank on March 12, 2023. The examination cycle's scope for the year 2022 included a review of all CAMELS components and incorporated the following target reviews conducted throughout 2022: corporate governance; information technology; fund banking; BSA/AML and OFAC; and liquidity risk management.

Target Review	Review Start Date	Supervisory Letter Issue Date
Corporate Governance	March 21, 2022	January 23, 2023
Information Technology	March 14, 2022	February 8, 2023
Fund Banking	August 29, 2023	Pending
Liquidity Risk Management	October 3, 2022	Pending
BSA/AML and OFAC Compliance	October 24, 2022	Pending

Figure 10. 2022 Target Review Schedule for Signature.

Regulatory Findings on Corporate Governance

The Regulators began a corporate governance target review on March 21, 2022. On May 19, 2022, the Regulators presented the review findings to the Bank's management. On January 23, 2023, the Regulators issued a Supervisory Letter to the Bank. The Regulators requested the Bank to provide written responses to the Supervisory Letter within 45 days evidencing that the MRBAs and SRs were being adequately addressed. On March 2, 2023, the Bank requested and received a 15-day extension to respond to the Supervisory Letter. The Bank failed before the response was received.

The purpose of the target review was to determine the effectiveness of management's corporate governance over the operations and products offered within the digital assets banking group private client group. The Regulators also assessed management's strategic/capital planning, budgeting processes, and the Board's oversight of the Bank's substantial growth in the past two years.

At the conclusion of the target review, the Regulators issued two MRBAs and four SRs to the Bank: one MRBA related to issue tracking and was an escalation of an earlier SR that remained outstanding since 2018; the second MRBA related to the management's organizational structure and decision-making processes. The four new SRs related to product implementation processes, key risk indicators and risk monitoring metrics, operational risk management oversight, and risk control self-assessments and control environment.

The Bank needed to have an organizational structure appropriate for the institution's size, complexity, and risk that would ensure continued safe and sound operations. As articulated in a Supervisory Letter, Regulators advised that establishing clearly defined lines of authority, and providing for effective and transparent decision-making processes for committees and senior management would allow the Board to properly oversee and hold management accountable for their decisions.

The Regulators recommended that the Board obtain an independent and objective assessment of the organizational, management, and committee structures, as well as related decision-making

authorities and processes, including an evaluation of the adequacy of the existing risk monitoring infrastructure.

Preliminary Regulatory Findings on Liquidity Risk Management

The Regulators began a liquidity target review on October 3, 2022, with an as-of date of September 30, 2022. The Regulators held multiple meetings with Bank management throughout the target review to discuss their findings. The Regulators were in the process of scheduling the final management exit meeting and finalizing the Supervisory Letter when the Bank failed.

The scope of the 2022 liquidity risk management target review included assessment of the adequacy of liquidity and funds risk management, an evaluation of management practices, policies, key risk metrics, the CFP, and the LST. The Regulators reviewed the effectiveness of second and third lines of defense oversight of practices and procedures. The Regulators also evaluated management's progress in achieving satisfactory resolution of the prior MRBA and SRs.

In their preliminary assessment, the Regulators concluded that the liquidity risk management concerns raised during the 2019 examination cycle remained unresolved. Although Bank management assured the Regulators in their September 14, 2022, letter that the MRBA had been effectively addressed, and indeed the Regulators planned to close some of the SRs from 2019, it was apparent that Bank management had failed to remediate the MRBA or fully address a number of SRs from 2019. Additionally, the Regulators found significant deficiencies in the internal audit department's identification of risks and controls, audit procedures, quality assurance of audit documentation, report transparency, root cause analysis, and audit ratings. The enterprise risk management framework also required improvement. These additional findings would have resulted in an additional MRBA with numerous SRs.

C. Signature's CAMELS Ratings Downgrade

On March 11, 2023, the Regulators issued an interim ratings downgrade letter to Signature. The Bank's Liquidity and Management component ratings and the composite rating were

downgraded to a ‘5,’ the lowest rating possible, from ‘3’ and ‘2,’ respectively.¹⁰ In addition, the capital rating was downgraded to a ‘3’ from a ‘2,’ given the Bank’s excessive risk profile. The FDIC also notified the Bank that it decided to pursue a formal enforcement action against it.

The decision to downgrade the CAMELS ratings was driven in part by Bank management’s continued failure to remediate several longstanding liquidity risk management deficiencies, the findings of the 2022 examination cycle, and Bank management’s failure to adequately respond to the events of the preceding week, including the events of March 10 in particular.

IV. DFS Decision to Take Possession of Signature

A. Events Leading up to Signature’s Collapse

On March 8, 2023, Silvergate Capital Corporation, a lender to the crypto industry and the holding company for Silvergate, announced that it was voluntarily winding down operations and liquidating Silvergate. The announcement came a week after Silvergate Capital Corporation delayed its annual filing with the Securities and Exchange Commission, warning that it may go out of business. As a result of that announcement, the bank’s biggest crypto-industry clients fled. Word quickly spread throughout news and social media outlets, where SVB and Signature were mentioned alongside Silvergate as “crypto-friendly” banks.¹¹ Because Signature had digital asset customers, the Regulators required Signature to provide periodic liquidity updates starting after the collapse of FTX in November 2022 and daily liquidity reports starting in January 2023.

¹⁰ See CAMELS Ratings Definitions, Appendix.

¹¹ See MacKenzie Sigalos, CNBC, *Crypto-focused bank Silvergate is shutting operations and liquidating after market meltdown*, available at: <https://www.cnbc.com/2023/03/08/silvergate-shutting-down-operations-and-liquidating-bank.html>. Problems at Silvergate Bank began in the last quarter of 2022 when its deposit base shrank from \$11.9 billion in September 2022 to \$3.8 billion at the end of the year. Silvergate Capital Corporation had to take out a \$4.3 billion loan from the FHLB and sell assets on its balance sheet, resulting in a loss of \$718 million—greater than all of the bank’s profits since 2013. See Jeff Gapusan, Forbes Digital Assets, *Silvergate Bank: The Canary In The Banking (Not Crypto) Coal Mine*, available at: <https://www.forbes.com/sites/digital-assets/2023/03/09/silvergate-bank-the-canary-in-the-banking-not-crypto-coal-mine/?sh=55ac7bf9b383>.

In light of the issues surrounding Silvergate, the Regulators initiated daily liquidity monitoring calls with Signature on March 8.

Also on March 8, SVB announced a \$1.8 billion loss on the sale of securities, including U.S. Treasury and mortgage bonds, which had lost significant value over the previous year. SVB laid out plans to raise more than \$2 billion in equity to shore up its balance sheet. Shares of SVB precipitously fell the following day, and customers, primarily venture capital firms and tech start-ups, began to withdraw their deposits from SVB. By the end of the day on Thursday, March 9, more than \$40 billion in deposits had been withdrawn from SVB, and SVB anticipated even greater outflow the following day.

By the morning of Friday, March 10, SVB lacked sufficient cash or collateral to meet ongoing extraordinary and rapid outflows. Before noon EST on March 10, the California Department of Financial Protection and Innovation took possession of SVB.

While Signature and SVB had vastly different clienteles,¹² news and social media coverage associated Signature with SVB, and SVB's failure provoked a run on deposits at Signature. By the end of the day on March 10, Signature had received more than 1,600 withdrawal requests totaling approximately \$18.6 billion, representing 20 percent of Signature's total deposits.¹³ The unprecedented volume of withdrawal demands strained Signature's liquidity and operational capacity and placed the Bank at risk of a technical default on its payment obligations.

¹² In fact, while Signature was presented as a crypto bank, the reality was that deposits from virtual currency businesses accounted for 18 percent of the Bank's deposit base as of March 2023.

¹³ During the prior week, Signature's deposit levels had been steady at an average of \$88.6 billion, with withdrawal requests that averaged \$1.8 billion per day. Signature's net inflows and outflows are presented Figure 11.

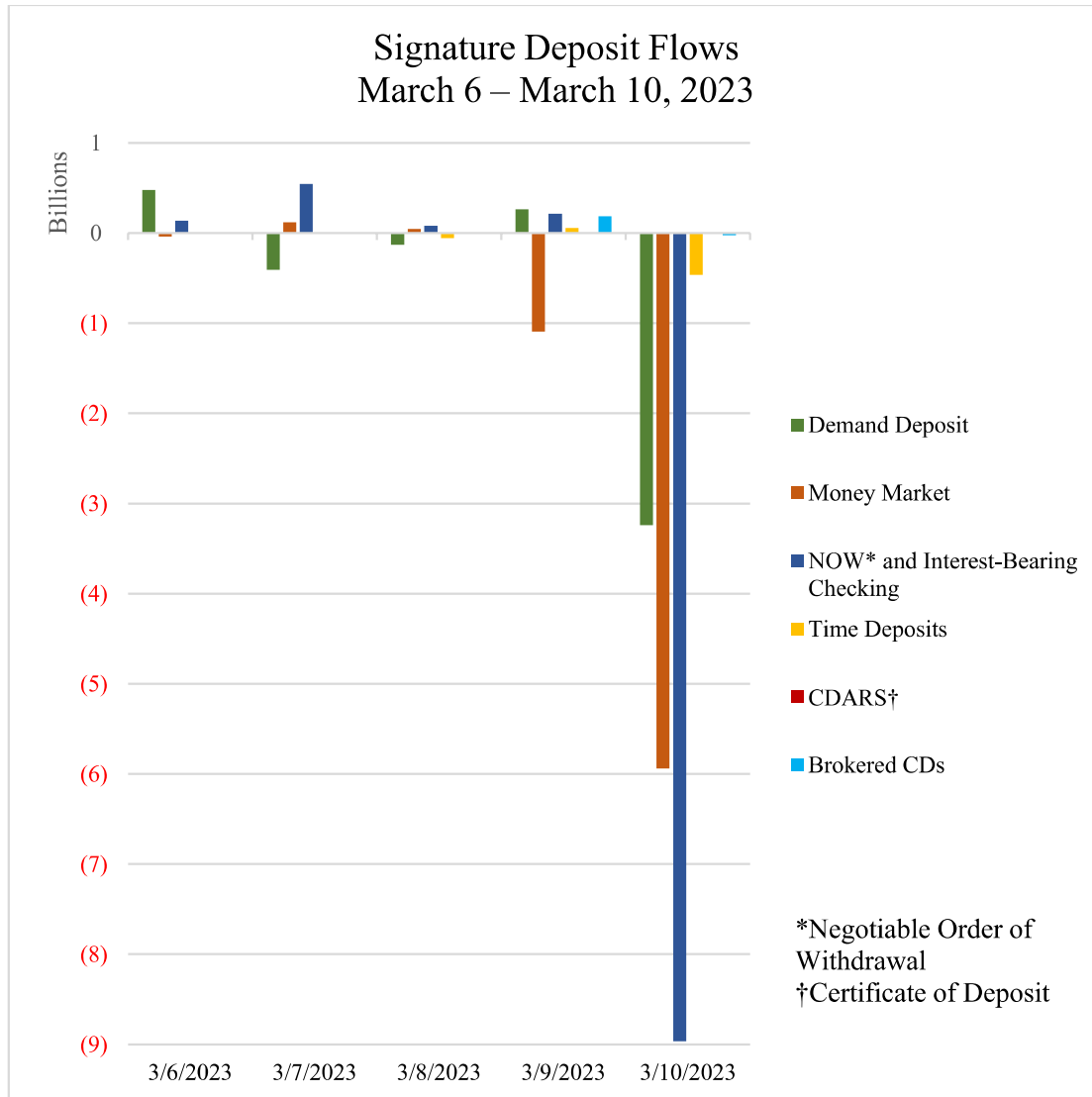


Figure 11. Signature Deposit Flows March 6 – March 10, 2023.

Throughout the day and into the night on March 10, the Regulators closely monitored the situation at Signature and worked with each other and with Signature as the Bank sought to raise sufficient liquidity to satisfy the significant volume of customer withdrawal requests.

Ultimately, to close a cash deficit of \$3.9 billion, the FRBNY loaned \$5.6 billion to Signature, secured by \$6.5 billion of collateral Signature had already posted with the FHLB. The process of pledging that collateral held at the FHLB to FRBNY was significantly challenged because Signature did not have existing arrangements in place to pledge any available collateral directly to the FRBNY. As an accommodation, given the urgency of the situation, FHLB agreed to

subordinate its interest in Signature collateral to the FRBNY in light of Signature's critical liquidity needs and its lack of timely viable alternatives.

The Federal Reserve also assisted the Bank in processing the outstanding Friday withdrawal requests by keeping Fedwire, which typically closes at 7:00 p.m., open until 11:30 p.m. With the extension of the Fedwire operational period, Signature was able to process some 692 wires totaling approximately \$14 billion and avoid a technical default on its payment obligations.

As March 10 drew to a close, Signature communicated to the Regulators that it had processed around 75 percent of the dollar amount of that day's pending withdrawal requests. That left approximately 1,000 remaining March 10 wires, representing about \$4.6 billion left to process when the Bank opened on Monday, March 13.¹⁴

The March 10 run placed a significant strain on Signature's available liquidity. As a result, beginning that evening DFS prepared to take possession of Signature. In the event it became obvious the Bank could no longer operate in a safe and sound manner and the Regulators had exhausted all other options, the paperwork for taking possession would already be prepared. Given the size of the run on deposits, the negative news, and significant uncertainty about the amount of liquidity available to Signature, it is likely that Signature would have failed if the run had occurred on any other day of the week. That the run occurred on a Friday meant that the Regulators and the Bank had time over the weekend to assess Signature's condition and come to a considered view as to whether the Bank could safely open on Monday. Once the Bank made it through Friday night, DFS's goal was to find a way for Signature to continue operating safely and soundly and to limit broader market contagion. In case that was not possible, the next best solution was for the Bank or the Regulators to identify an acquirer or merger partner for

¹⁴ Based on the information provided by Signature, DFS estimated Signature had \$4.6 billion of deposit withdrawals left to process after Friday night. Signature's estimates of outstanding deposit withdrawals varied throughout the weekend. As of noon on Saturday, March 11, Signature estimated \$3 billion in outstanding deposit withdrawals. As of Saturday evening, Signature estimated the amount to be between \$1.6 billion and \$2.3 billion.

Signature that weekend. Taking possession of the Bank and appointing the FDIC as receiver was the option of last resort.

B. Signature's Collapse

DFS worked closely with the FDIC and other federal regulators over the weekend to assess Signature's viability but found that Signature was unable to provide reliable and consistent data about its available liquidity or the amount of pending withdrawals. During an early afternoon call on Saturday, March 11 with Signature executives and the Board, the Regulators made clear to the Bank that the Bank's viability was uncertain and that the Regulators needed timely, accurate, and complete information to assess the condition of the Bank. When Signature would not commit to providing information by a particular time, the Regulators pushed Signature to provide the data no later than 4:00 p.m. that day.

Despite this frank conversation, Signature only started producing information in response to the Regulators requests data until 4:44 p.m. on Saturday, and even then the data the Bank provided was incomplete. Regulators did not receive a comprehensive liquidity plan from Signature until Sunday, March 12 at noon.

Signature's Liquidity Was Inadequate and Information Provided Was Unreliable

Signature needed to provide reliable and realistic data, particularly concerning immediately available liquidity and ongoing deposit withdrawals, to inform the analysis the Regulators and Signature needed to perform to understand the Bank's liquidity position. Once Signature began providing any data on these key issues, the Regulators found the data was inconsistent and that it continuously changed in material ways.

To open in a safe and sound manner on Monday, March 13, Signature needed to identify and pledge assets that were immediately acceptable to the FRBNY to raise the liquidity needed to meet outstanding and new deposit withdrawal requests. Signature struggled over the weekend to identify readily pledgeable assets.

As a result of its Fund Banking business, Signature held \$18 billion in capital call loans that the Bank sought to pledge to the FRBNY. Signature knew, however, that the FRBNY would not accept these loans as collateral because of the involvement of foreign investors. Signature and its counsel had previously failed to convince the FRBNY to accept these loans as collateral. Over the weekend, Signature implored Regulators to intercede on the Bank's behalf with the FRBNY.

For other assets, such as the Bank's commercial real estate loan portfolio, the FRBNY advised the Regulators that it would take weeks for the FRBNY to review and value the portfolio. Although the Bank knew the FRBNY would not accept this collateral in the immediate future, Signature continued to report to the Regulators that liquidity for these assets would be available as early as Monday, March 13.

Also on Saturday, Bank executives insisted that Signature had over \$5 billion in unpledged but valuable pledgeable securities available for Monday. Given the difficulties Signature had identifying pledgeable collateral Friday night, the Regulators were suspicious of this assertion. The Regulators repeatedly asked for details about those assets, which were not forthcoming. Finally, on a call at 10:00 p.m. on Saturday, March 11, Bank executives reduced the estimate of unpledged securities from over \$5 billion to just \$900 million.

Signature's Withdrawal Requests Were Inconsistent and Unrealistic

Over the weekend, while Signature struggled to identify readily available liquidity, estimates of pending deposit withdrawals steadily increased. Between Saturday night and Sunday morning, Signature's deposit withdrawal estimate increased from \$2 billion to \$4 billion, and then nearly doubled again by Sunday evening. By that time, Signature reported known pending deposit outflows of anywhere between \$7.4 billion and \$7.9 billion against just \$4.27 billion in certain liquidity.

Those numbers excluded any additional, unknown deposit withdrawal requests that Signature would receive on Monday. Throughout the weekend, Signature insisted that additional deposit withdrawals would be minimal, with one executive stating on Saturday that weekend activity had

been “uneventful thus far.” The Regulators assessed that Signature’s projection was unrealistic. Following the events that transpired at SVB, an unprecedented bank run on Signature, and a weekend of panicked news coverage, it was clear the Bank had to be prepared for another run of at least up to 20 percent of remaining deposits on Monday. Another run of that size would amount to approximately \$11 billion on top of the pending withdrawal requests.

Signature Counted on Large Deposit Inflows

On Saturday night and through Sunday afternoon, Signature advised the Regulators that its available liquidity on Monday would be bolstered by substantial deposit inflows from clients following SVB’s failure. Given the run that Signature experienced following the failure of SVB, the Regulators assessed Signature’s position that its liquidity would be aided by large deposit inflows from SVB clients to be overly optimistic.

Moreover, Signature claimed \$5 billion of its projected \$6 billion deposit inflow would come from a DFS-regulated virtual currency company. As a result of DFS’s oversight of that entity, DFS had information that contradicted the Bank’s representations. Specifically, that entity advised DFS that the amount being transferred from SVB to Signature was approximately half what Signature was representing and, because of delays caused by SVB being placed into receivership, the money would not be available until Tuesday at the earliest.

The Decision to Take Possession of Signature

As of Sunday, March 12, Signature had \$4.27 billion of certain liquidity available for Monday morning to cover known withdrawals ranging between \$7.4 and \$7.9 billion. Starting at noon on Sunday, Signature provided four different liquidity projections for the coming week. While these projections repeatedly shifted, Signature consistently projected substantial liquidity available that week. The Regulators found these projections to be inaccurate and unreliable. In fact, the last three liquidity projections provided by Signature bore the disclaimer that they were prepared “solely for informational purposes” and DFS “should not definitively rely upon it or use it to form the definitive basis for any decision, contract, commitment or action whatsoever, with respect to any proposed transaction or otherwise.”

The final “Illustrative Liquidity Sources” projection provided by Signature showed the following:

Illustrative Liquidity Sources

Liquidity Sources	Amount (\$Bn)	Commentary
Potential Monday Liquidity		
Cash at Fed	3.70	
FRB Capacity (Securities)	0.57	
Certain Capacity	4.27	
Securities Tri-Party Agreement	7.40	\$8.7Bn of securities at 15% haircut
Liquidity Sources - Very Likely	11.67	
CRE Loans to FRB	5.95	\$11.9Bn at 50% haircut
SF Loans to FRB	3.19	
Liquidity Sources - Highly Likely	20.81	
Less Wires Out	(3.73)	
Other Client Potential Withdrawals	(2.89)	
Potential Monday Liquidity	14.19	
Other Potential Liquidity		
Large Deposit Inflows	6.00	Large portion in SVB transfer
Total with Other Potential Liquidity	20.19	
Potential Tuesday Actions		
Cash from Sale of Unpledged AFS Securities	1.22	Currently unpledged securities
Cash from Sale of AFS Securities	3.34	Recapture of pledged security haircut and sale of other AFS
Potential Tuesday Actions	4.56	
Potential Mid-Week Actions		
Cash from Sale of Residential Loans	0.37	\$390MM on balance sheet; assumes 5% loss on sale
Cash from Sale of Capital Call Lines	9.79	\$10Bn on balance sheet; assumes 5% loss on sale
Potential Mid-Week Actions	10.16	
Total	34.90	

Figure 12. Illustrative Liquidity Sources Provided by Signature at 3:09 p.m. EST March 12, 2023.

While this projection shows “Highly Likely” liquidity of \$20.81 billion in Monday liquidity, that number includes \$5.95 billion in commercial real estate loans (referenced as “CRE Loans”) that the FRBNY had, over the weekend, repeatedly indicated would take weeks to evaluate. There was, in short, no chance that any liquidity would be available from those loans on Monday. The other two categories of Monday liquidity—“SF Loans” and “Securities Tri-Party Agreement”—were items the FRBNY indicated it might accept but that it had no information to assess how much, if any, of these assets were eligible and, if they were, what haircut would apply. Given Signature’s lack of an established process for pledging collateral with the FRBNY, the difficulty Signature experienced in identifying pledgeable collateral on Friday, March 10, and the fact that

the FRBNY repeatedly advised Regulators that it did not trust Signature's numbers, the Regulators assessed Signature's projected liquidity from these sources as unreliable. At best, Signature would realize some liquidity from these assets, but not in the amounts projected by the Bank. At worst, Signature would be able to access substantially less liquidity from these assets and possibly none at open of business on Monday.

By Sunday afternoon, it was clear there was no reasonable possibility that Signature could continue operating in a safe and sound manner on Monday, March 13. Signature repeatedly provided unreliable information to the Regulators over the weekend, and its final liquidity projections were not credible. The Regulators assessed that Signature would not have enough liquidity to satisfy known and expected withdrawals on Monday, much less be able to satisfy any additional unknown withdrawals that could reasonably be anticipated in light of market conditions. DFS sought to identify potential acquirers over the weekend but found that without federal loss-sharing, potential partners were not interested in acquiring Signature.

Once it became clear there were no other viable alternatives, and in order to avoid a disorderly mid-day Monday shutdown and to stop any further panic and contagion across the broader banking system, DFS took possession of Signature at approximately 5:30 p.m. on Sunday and immediately appointed the FDIC as receiver. At 6:17 p.m., the Department of the Treasury, the Federal Reserve Board, and the FDIC issued a press release announcing the decision to invoke the systemic risk exception. DFS issued a press release announcing that it had taken possession of Signature, and appointed the FDIC as receiver at 6:26 p.m. At 7:48 p.m., the FDIC announced the creation of Signature Bridge Bank.

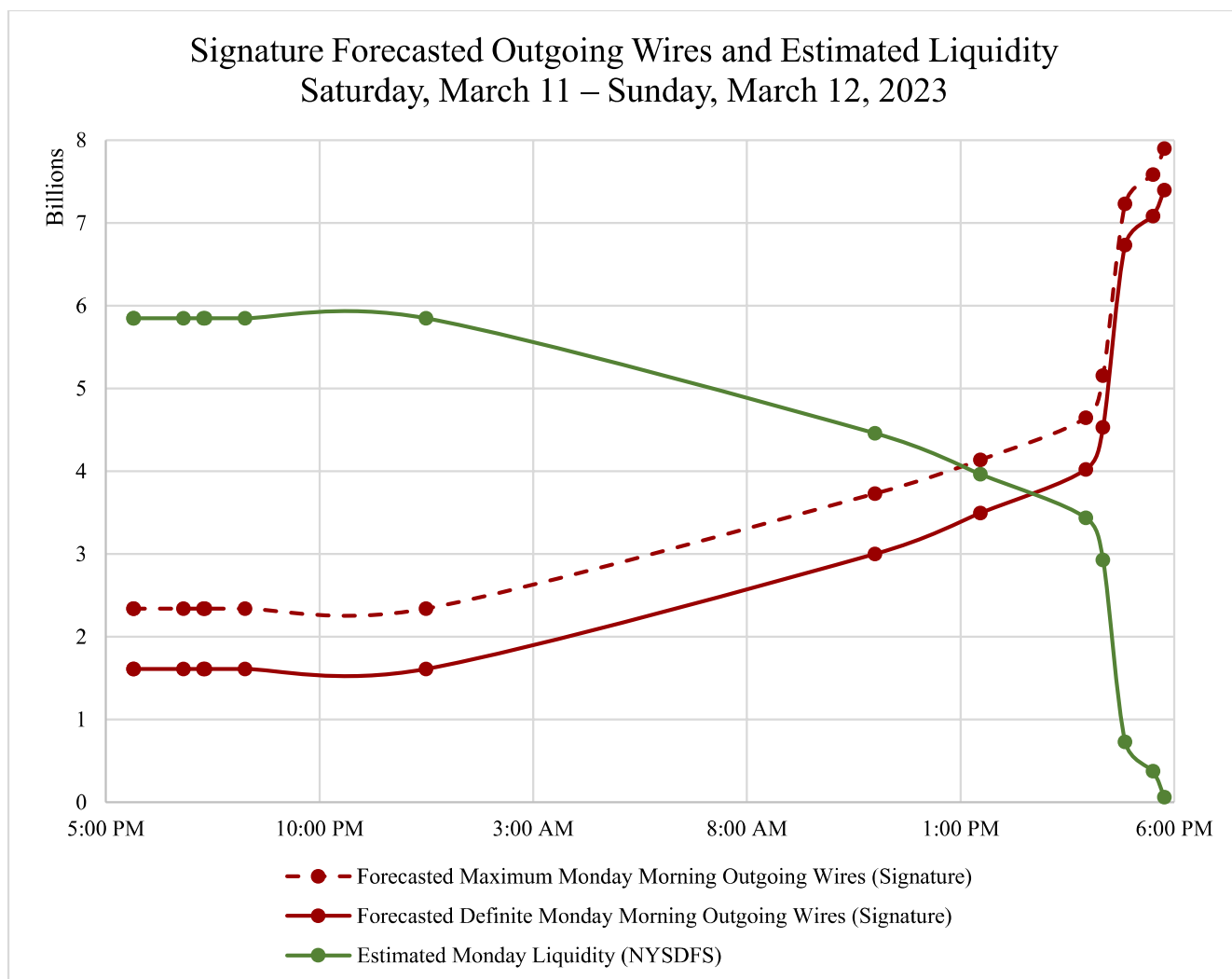


Figure 13. Signature’s Projected Liquidity vs. Known Withdrawals

V. Review Findings

A. Summary

A confluence of events—the liquidation of Silvergate, the collapse of SVB, and rapidly spreading social media posts—led to a panic and an unprecedented outflow of deposits from Signature on Friday, March 10. The Bank was ill-prepared to handle the run. Signature barely avoided defaulting on its payment obligations that Friday night and failed to deliver timely on almost 1,000 individually ordered withdrawal requests. While the Bank narrowly survived the immediate deposit run, allowing the Bank and the Regulators the weekend to assess Signature’s

condition, the Bank had insufficient liquidity to open in a safe and sound manner on Monday, March 13. Finding that the Bank had inadequate liquidity and no reasonable prospect of being acquired that weekend, DFS took possession of Signature and appointed the FDIC as receiver on Sunday, March 12.

Signature's response to this crisis was hampered by a control framework that did not develop in line with the Bank's growth, and a liquidity management plan that did not match the Bank's risk profile. Between 2019 and 2021, Signature launched a number of new business initiatives, the Bank's assets doubled, and its uninsured deposits tripled. The rapid growth and reliance on uninsured deposits to fund its business required a commensurate evolution of risk controls. The informal decision-making processes and organizational structure that previously supported the Bank were no longer adequate for the Bank's increasing size, complexity, and risk profile. At the same time, the Bank's belief that the relationships it built with its customers would limit any run proved misplaced.

The Regulators identified and communicated issues with Signature's liquidity contingency planning as part of the 2019 examination cycle—in regulatory findings and in meetings with management—but unfortunately, the Bank was slow to react. Signature's failure to remediate these outstanding issues undoubtedly contributed to its collapse. Given the prevailing panic, and the size and speed of the deposit run that occurred at SVB, it is unclear whether, if it had opened on March 13 in a better liquidity position, Signature could have survived a digital-age deposit run.

B. Recommended Improvements to Bank Supervision

As a result of this review, DFS has identified the following areas for improvement of its supervision of banking organizations:

Update Policies and Procedures

Signature's collapse underscores the speed at which the modern financial system moves. DFS's policies and procedures will be reviewed to streamline and simplify internal processes and to insure that DFS is addressing risks in real-time.

In particular, while Regulators conducted timely examinations of Signature, finalizing and issuing regulatory findings in the form of Supervisory Letters or Reports of Examination did not happen in a sufficiently timely manner. DFS staffing constraints contributed to these delays. In some instances, target reviews were completed before Reports of Examination were issued for the previous examination cycle. As a result, while target review findings were discussed with the Bank's management closer in time to the end of each examination, the information was often stale by the time the Reports of Examination were presented to the Board.

One reason for the prolonged turn-around time to issue Reports of Examination and Supervisory Letters to Signature was the cumbersome review process. For example, before a Supervisory Letter was issued to the Bank, it had to undergo several rounds of reviews, with no established internal deadlines for completion. Often, the letters were not prepared by the examiners who conducted the target review, meaning that the drafter would have to take time to review the findings to be able to draft the Supervisory Letter. This process creates inefficiencies and causes delays that hinder DFS's ability to address risks promptly. DFS's review and revision of its policies and procedures will seek to create efficiencies by keeping key subject-matter experts involved at all stages of the examination process, including the preparation of critical post-exam documentation, and setting internal deadlines for the completion of work for each stage of the process.

Operational Stress Testing

Faced with the pressures created by the run on Friday, March 10, Signature struggled to provide timely and accurate information to the Regulators on the key issues of liquidity and outgoing wire requests. While examiners routinely require stress testing of certain key financial assumptions and controls, operational functions are not similarly tested. DFS will consider whether banks need to conduct table-top exercises demonstrating their operational readiness to collect and produce accurate financial data at a rapid pace and in a stress scenario.

Rebuilding Examination Capacity

Internal staff constraints limited DFS's ability to adequately staff examinations. Superintendent Harris has prioritized hiring since she was appointed to lead DFS in September 2021. The state's FY23 budget, enacted in 2022, fully funded DFS for the first time in its history, allowing the agency to hire staff that had been needed for years. Pursuant to Superintendent Harris's strategic staffing plan, DFS overhauled its hiring process and onboarded the first new class of financial services examiners, critical staff needed to increase capacity to examine banking organizations, since 2018. As a result, since January 2022, DFS has hired 205 new staff and promoted 199 existing members of the team.

Even with DFS's recent hiring success, however, a long-running failure to maintain adequate staffing levels, combined with ongoing attrition¹⁵ requires DFS to continue this important work of hiring in order to fully execute on its mission. As DFS continues to advance its recruitment, hiring, and retention strategies, it will do so bearing identified inefficiencies in the examination process in mind. A larger pool of examiners and supervisors will help close the timing gap between the end of examinations and the issuance of Reports of Examination and Supervisory Letters, and avoid over-staffing key examination personnel, rendering them unavailable as primary participants in the preparation of key documentation.

¹⁵ Among other issues, including attrition to federal financial regulators who pay on average 30 to 50 percent more for similar roles.

Examiner training will also be reviewed to ensure new and existing DFS examiners are receiving the most up-to-date training, including ensuring the examination team is kept current on new and emerging issues that may affect a bank's safety and soundness.

Escalating Regulatory Issues

The review showed that while the Regulators used available tools to identify risks for the Bank, the Bank failed to address key concerns fully and in a timely manner at the same time it was rapidly expanding its business operations.

DFS's internal processes lack clear guidelines that examiners must follow to escalate regulatory concerns or instances in which a bank fails to remediate findings in a timely fashion. The Bank's MRBA on liquidity contingency planning remained outstanding from 2020, yet no measurable action was taken to require the Bank to expedite its efforts in remediating regulatory findings or to penalize inadequate or incomplete efforts. DFS needs to establish clear escalation procedures for examination findings that remain outstanding and criteria on when further action must be taken to ensure compliance with an outstanding regulatory finding.

Liquidity Risk Modeling

The rapid collapse of Signature underscores the need to revisit the assumptions used to model and manage liquidity risk. In particular, both the types of Signature's depositors that ran and the speed at which they initiated withdrawals far outpaced assumptions many institutions use to model and assess liquidity risk.

The mismatch between recent lived experience and defined regulatory expectations is apparent when considering recent depositor behavior versus the mandated assumptions of the liquidity coverage ratio¹⁶ ("LCR"). The LCR requirement mandates that covered institutions always

¹⁶ The LCR promotes the short-term resilience of a bank's liquidity risk profile. Under the LCR, the bank has to have an adequate stock of unencumbered high-quality liquid assets ("HQLA") that can be converted into cash easily and immediately in private markets to meet its liquidity needs for a 30-calendar day liquidity stress scenario. The LCR is calculated by taking HQLA and dividing it by the net of expected inflows and outflows over a thirty-day period in a stressed scenario.

maintain at least 100 percent liquidity compared to the total expected cash outflows over a thirty-day period in a stressed scenario. The LCR is calculated under the LCR rule,¹⁷ which dictates specific stress assumptions, including the percentage of withdrawals and liquidity flight that an institution must model, defined by specific categories of bank customers. Under the LCR rule, retail deposits are classified as “stable retail deposits”—defined as fully insured deposits that are held in a transactional account or that the institution has otherwise determined are not likely to run during stress, based on the customer’s other relationships with the institution—and “other retail deposits”—capturing the rest of all retail deposits (including those not fully insured). Over a 30-day stress period, the LCR rule requires covered institutions to assume a three percent outflow rate for stable retail deposits and a 10 percent outflow rate for other retail deposits. The rule also prescribes outflow rates for subcategories of “unsecured wholesale funding”; most relevant for the immediate purposes, the LCR rule requires subject institutions to assume a five percent outflow rate for fully insured operational deposits not held in an escrow account and a 25 percent outflow rate for other operational deposits (meaning those that are held in escrow accounts or those that are not fully insured).

The observed behavior of Signature’s depositors beginning on March 10 did not align with these assumptions, in many instances exceeding them, despite the fact that the rule is intended to provide a uniform and conservative liquidity risk-management framework. Indeed, Signature’s customers withdrew their deposits despite existing longstanding relationships and despite the fact that some customers also held operating accounts at the Bank. Although under current U.S. rules the LCR requirement applies only to banks with total assets of \$250 billion or greater, the fact remains that the LCR rule’s dictated assumptions—despite having been based on “substantial supervisory data” including that collected during the 2008 financial crisis¹⁸—have not kept pace with customer behavior or technological advancements in media and mobile banking in the years since its finalization. Although smaller institutions are not subject to the LCR requirement as a

¹⁷ The U.S. LCR rule was jointly promulgated by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the FDIC in 2014. Liquidity Coverage Ratio; Liquidity Risk Management Standards, 79 Fed. Reg. 61440 (Oct. 10, 2014).

¹⁸ 79 Fed. Reg. at 61481.

technical matter, it remains the case that all regulators would do well to revisit their liquidity risk assessment frameworks to account for changes in technology, account accessibility, and customer behavior. In particular, in light of the experience with Signature, regulators should consider whether the assumptions used by regulated banks to classify their deposits (including which types of deposits may be considered “stable” and the appropriate conservative assumed outflow rates) adequately capture the risk such deposits may represent.

Strengthen Regulatory Tools

DFS will work with stakeholders to identify and develop appropriate new regulatory tools to hold executives accountable for misconduct that leads to the failure of a banking organization and address the dissemination of false information that provoke bank runs. These actions may include potential administrative actions, such as regulations or guidance, as well as working with the New York State Legislature on potential statutory changes.

VI. Conclusion

During the period in review, DFS regularly examined Signature and monitored the Bank’s condition through continuous offsite monitoring mechanisms. Regulators correctly identified areas of concerns for Signature and properly raised them through MRBAs and SRs with the Bank, its Board and management in meetings, examination reports, Supervisory Letters, and other correspondence. However, this review identified several areas in which DFS can improve its supervision of banks, modernize regulatory processes, and adopt new tools to strengthen oversight. DFS is committed to addressing these findings and implementing corrective measures.

Appendix

Uniform Financial Institutions Rating System (CAMELS)

Federal Communications Commission.
William F. Caton,
Acting Secretary.
[FR Doc. 97-97 Filed 1-3-97; 8:45 am]
BILLING CODE 6712-01-P

FEDERAL DEPOSIT INSURANCE CORPORATION

Uniform Financial Institutions Rating System

AGENCY: Federal Deposit Insurance Corporation.

ACTION: Notice of adoption of policy statement.

SUMMARY: The Board of Directors of the Federal Deposit Insurance Corporation (FDIC) (Board) has considered the proposed revisions to the Uniform Financial Institutions Rating System (UFIRS) as approved by the Federal Financial Institutions Examination Council (FFIEC) on December 9, 1996. On December 20, 1996, the Board adopted the updated UFIRS as a policy statement of the FDIC and rescinded the 1979 statement of policy published in the FDIC's regulatory service (*FDIC Law, Regulations and Related Acts*) at page 5079.

EFFECTIVE DATE: January 1, 1997.

FOR FURTHER INFORMATION CONTACT: Daniel M. Gautsch, Examination Specialist, (202) 898-6912, Office of Policy, Division of Supervision. For legal issues, Linda L. Stamp, Counsel, (202) 898-7310, Supervision and Legislation Branch, Federal Deposit Insurance Corporation, 550 17th Street NW, Washington, D.C. 20429.

SUPPLEMENTARY INFORMATION: The FDIC is a Federal financial institutions regulatory agency under the Federal Financial Institutions Examination Council Act of 1978. The FFIEC adopted an updated UFIRS after a notice and request for comment was published in the Federal Register on July 18, 1996 at 61 FR 37472. On December 9, 1996, the Task Force on Supervision of the FFIEC approved under delegated authority the updated UFIRS to update the rating system to address changes in the financial services industry and in supervisory policies and procedures occurring since the rating system was adopted in 1979.

Section 303(a)(2) of the Riegle Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. 4803(a)) (Riegle Act) provides that the FDIC shall, consistent with the principles of safety and soundness, statutory law and policy, and the public interest, work jointly to make uniform

all regulations and guidelines implementing common statutory or supervisory policies. Section 303(a)(1) of the Riegle Act requires the FDIC to review its own regulations and written policies and to streamline those regulations and policies where possible. To fulfill the section 303 mandate, the FDIC has been reviewing on an interagency basis and internally, its regulations and written policies to identify those areas where streamlining or updating is appropriate. As a result of those reviews, the FDIC is adopting the updated UFIRS effective for examination commenced on or after January 1, 1997.

The text of the policy statement follows:

Uniform Financial Institutions Rating System

Introduction

The Uniform Financial Institutions Rating System (UFIRS) was adopted by the Federal Financial Institutions Examination Council (FFIEC) on November 13, 1979. Over the years, the UFIRS has proven to be an effective internal supervisory tool for evaluating the soundness of financial institutions on a uniform basis and for identifying those institutions requiring special attention or concern. A number of changes, however, have occurred in the banking industry and in the Federal supervisory agencies' policies and procedures which have prompted a review and revision of the 1979 rating system. The revisions to UFIRS include the addition of a sixth component addressing sensitivity to market risks, the explicit reference to the quality of risk management processes in the management component, and the identification of risk elements within the composite and component rating descriptions.

The revisions to UFIRS are not intended to add to the regulatory burden of institutions or require additional policies or processes. The revisions are intended to promote and complement efficient examination processes. The revisions have been made to update the rating system, while retaining the basic framework of the original rating system.

The UFIRS takes into consideration certain financial, managerial, and compliance factors that are common to all institutions. Under this system, the supervisory agencies endeavor to ensure that all financial institutions are evaluated in a comprehensive and uniform manner, and that supervisory attention is appropriately focused on the financial institutions exhibiting

financial and operational weaknesses or adverse trends.

The UFIRS also serves as a useful vehicle for identifying problem or deteriorating financial institutions, as well as for categorizing institutions with deficiencies in particular component areas. Further, the rating system assists Congress in following safety and soundness trends and in assessing the aggregate strength and soundness of the financial industry. As such, the UFIRS assists the agencies in fulfilling their collective mission of maintaining stability and public confidence in the nation's financial system.

Overview

Under the UFIRS, each financial institution is assigned a composite rating based on an evaluation and rating of six essential components of an institution's financial condition and operations. These component factors address the adequacy of capital, the quality of assets, the capability of management, the quality and level of earnings, the adequacy of liquidity, and the sensitivity to market risk. Evaluations of the components take into consideration the institution's size and sophistication, the nature and complexity of its activities, and its risk profile.

Composite and component ratings are assigned based on a 1 to 5 numerical scale. A 1 indicates the highest rating, strongest performance and risk management practices, and least degree of supervisory concern, while a 5 indicates the lowest rating, weakest performance, inadequate risk management practices and, therefore, the highest degree of supervisory concern.

The composite rating generally bears a close relationship to the component ratings assigned. However, the composite rating is not derived by computing an arithmetic average of the component ratings. Each component rating is based on a qualitative analysis of the factors comprising that component and its interrelationship with the other components. When assigning a composite rating, some components may be given more weight than others depending on the situation at the institution. In general, assignment of a composite rating may incorporate any factor that bears significantly on the overall condition and soundness of the financial institution. Assigned composite and component ratings are disclosed to the institution's board of directors and senior management.

The ability of management to respond to changing circumstances and to address the risks that may arise from

changing business conditions, or the initiation of new activities or products, is an important factor in evaluating a financial institution's overall risk profile and the level of supervisory attention warranted. For this reason, the management component is given special consideration when assigning a composite rating.

The ability of management to identify, measure, monitor, and control the risks of its operations is also taken into account when assigning each component rating. It is recognized, however, that appropriate management practices vary considerably among financial institutions, depending on their size, complexity, and risk profile. For less complex institutions engaged solely in traditional banking activities and whose directors and senior managers, in their respective roles, are actively involved in the oversight and management of day-to-day operations, relatively basic management systems and controls may be adequate. At more complex institutions, on the other hand, detailed and formal management systems and controls are needed to address their broader range of financial activities and to provide senior managers and directors, in their respective roles, with the information they need to monitor and direct day-to-day activities. All institutions are expected to properly manage their risks. For less complex institutions engaging in less sophisticated risk taking activities, detailed or highly formalized management systems and controls are not required to receive strong or satisfactory component or composite ratings.

Foreign Branch and specialty examination findings and the ratings assigned to those areas are taken into consideration, as appropriate, when assigning component and composite ratings under UFIRS. The specialty examination areas include: Compliance, Community Reinvestment, Government Security Dealers, Information Systems, Municipal Security Dealers, Transfer Agent, and Trust.

The following two sections contain the composite rating definitions, and the descriptions and definitions for the six component ratings.

Composite Ratings

Composite ratings are based on a careful evaluation of an institution's managerial, operational, financial, and compliance performance. The six key components used to assess an institution's financial condition and operations are: capital adequacy, asset quality, management capability, earnings quantity and quality, the

adequacy of liquidity, and sensitivity to market risk. The rating scale ranges from 1 to 5, with a rating of 1 indicating: the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile; and the level of least supervisory concern. A 5 rating indicates: the most critically deficient level of performance; inadequate risk management practices relative to the institution's size, complexity, and risk profile; and the greatest supervisory concern. The composite ratings are defined as follows:

Composite 1

Financial institutions in this group are sound in every respect and generally have components rated 1 or 2. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. These financial institutions are the most capable of withstanding the vagaries of business conditions and are resistant to outside influences such as economic instability in their trade area. These financial institutions are in substantial compliance with laws and regulations. As a result, these financial institutions exhibit the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile, and give no cause for supervisory concern.

Composite 2

Financial institutions in this group are fundamentally sound. For a financial institution to receive this rating, generally no component rating should be more severe than 3. Only moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct. These financial institutions are stable and are capable of withstanding business fluctuations. These financial institutions are in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile. There are no material supervisory concerns and, as a result, the supervisory response is informal and limited.

Composite 3

Financial institutions in this group exhibit some degree of supervisory concern in one or more of the component areas. These financial institutions exhibit a combination of weaknesses that may range from moderate to severe; however, the magnitude of the deficiencies generally will not cause a component to be rated

more severely than 4. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Financial institutions in this group generally are less capable of withstanding business fluctuations and are more vulnerable to outside influences than those institutions rated a composite 1 or 2.

Additionally, these financial institutions may be in significant noncompliance with laws and regulations. Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile. These financial institutions require more than normal supervision, which may include formal or informal enforcement actions. Failure appears unlikely, however, given the overall strength and financial capacity of these institutions.

Composite 4

Financial institutions in this group generally exhibit unsafe and unsound practices or conditions. There are serious financial or managerial deficiencies that result in unsatisfactory performance. The problems range from severe to critically deficient. The weaknesses and problems are not being satisfactorily addressed or resolved by the board of directors and management. Financial institutions in this group generally are not capable of withstanding business fluctuations. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the institution's size, complexity, and risk profile. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems. Institutions in this group pose a risk to the deposit insurance fund. Failure is a distinct possibility if the problems and weaknesses are not satisfactorily addressed and resolved.

Composite 5

Financial institutions in this group exhibit extremely unsafe and unsound practices or conditions; exhibit a critically deficient performance; often contain inadequate risk management practices relative to the institution's size, complexity, and risk profile; and are of the greatest supervisory concern. The volume and severity of problems are beyond management's ability or willingness to control or correct. Immediate outside financial or other assistance is needed in order for the financial institution to be viable. Ongoing supervisory attention is necessary. Institutions in this group

pose a significant risk to the deposit insurance fund and failure is highly probable.

Component Ratings

Each of the component rating descriptions is divided into three sections: an introductory paragraph; a list of the principal evaluation factors that relate to that component; and a brief description of each numerical rating for that component. Some of the evaluation factors are reiterated under one or more of the other components to reinforce the interrelationship between components. The listing of evaluation factors for each component rating is in no particular order of importance.

Capital Adequacy

A financial institution is expected to maintain capital commensurate with the nature and extent of risks to the institution and the ability of management to identify, measure, monitor, and control these risks. The effect of credit, market, and other risks on the institution's financial condition should be considered when evaluating the adequacy of capital. The types and quantity of risk inherent in an institution's activities will determine the extent to which it may be necessary to maintain capital at levels above required regulatory minimums to properly reflect the potentially adverse consequences that these risks may have on the institution's capital.

The capital adequacy of an institution is rated based upon, but not limited to, an assessment of the following evaluation factors:

- The level and quality of capital and the overall financial condition of the institution.
- The ability of management to address emerging needs for additional capital.
- The nature, trend, and volume of problem assets, and the adequacy of allowances for loan and lease losses and other valuation reserves.
- Balance sheet composition, including the nature and amount of intangible assets, market risk, concentration risk, and risks associated with nontraditional activities.
- Risk exposure represented by off-balance sheet activities.
- The quality and strength of earnings, and the reasonableness of dividends.
- Prospects and plans for growth, as well as past experience in managing growth.
- Access to capital markets and other sources of capital, including support provided by a parent holding company.

Ratings

1 A rating of 1 indicates a strong capital level relative to the institution's risk profile.

2 A rating of 2 indicates a satisfactory capital level relative to the financial institution's risk profile.

3 A rating of 3 indicates a less than satisfactory level of capital that does not fully support the institution's risk profile. The rating indicates a need for improvement, even if the institution's capital level exceeds minimum regulatory and statutory requirements.

4 A rating of 4 indicates a deficient level of capital. In light of the institution's risk profile, viability of the institution may be threatened. Assistance from shareholders or other external sources of financial support may be required.

5 A rating of 5 indicates a critically deficient level of capital such that the institution's viability is threatened. Immediate assistance from shareholders or other external sources of financial support is required.

Asset Quality

The asset quality rating reflects the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, and other assets, as well as off-balance sheet transactions. The ability of management to identify, measure, monitor, and control credit risk is also reflected here. The evaluation of asset quality should consider the adequacy of the allowance for loan and lease losses and weigh the exposure to counterparty, issuer, or borrower default under actual or implied contractual agreements. All other risks that may affect the value or marketability of an institution's assets, including, but not limited to, operating, market, reputation, strategic, or compliance risks, should also be considered.

The asset quality of a financial institution is rated based upon, but not limited to, an assessment of the following evaluation factors:

- The adequacy of underwriting standards, soundness of credit administration practices, and appropriateness of risk identification practices.
- The level, distribution, severity, and trend of problem, classified, nonaccrual, restructured, delinquent, and nonperforming assets for both on- and off-balance sheet transactions.
- The adequacy of the allowance for loan and lease losses and other asset valuation reserves.
- The credit risk arising from or reduced by off-balance sheet

transactions, such as unfunded commitments, credit derivatives, commercial and standby letters of credit, and lines of credit.

- The diversification and quality of the loan and investment portfolios.
- The extent of securities underwriting activities and exposure to counterparties in trading activities.
- The existence of asset concentrations.
- The adequacy of loan and investment policies, procedures, and practices.
- The ability of management to properly administer its assets, including the timely identification and collection of problem assets.
- The adequacy of internal controls and management information systems.
- The volume and nature of credit documentation exceptions.

Ratings

1 A rating of 1 indicates strong asset quality and credit administration practices. Identified weaknesses are minor in nature and risk exposure is modest in relation to capital protection and management's abilities. Asset quality in such institutions is of minimal supervisory concern.

2 A rating of 2 indicates satisfactory asset quality and credit administration practices. The level and severity of classifications and other weaknesses warrant a limited level of supervisory attention. Risk exposure is commensurate with capital protection and management's abilities.

3 A rating of 3 is assigned when asset quality or credit administration practices are less than satisfactory. Trends may be stable or indicate deterioration in asset quality or an increase in risk exposure. The level and severity of classified assets, other weaknesses, and risks require an elevated level of supervisory concern. There is generally a need to improve credit administration and risk management practices.

4 A rating of 4 is assigned to financial institutions with deficient asset quality or credit administration practices. The levels of risk and problem assets are significant, inadequately controlled, and subject the financial institution to potential losses that, if left unchecked, may threaten its viability.

5 A rating of 5 represents critically deficient asset quality or credit administration practices that present an imminent threat to the institution's viability.

Management

The capability of the board of directors and management, in their

respective roles, to identify, measure, monitor, and control the risks of an institution's activities and to ensure a financial institution's safe, sound, and efficient operation in compliance with applicable laws and regulations is reflected in this rating. Generally, directors need not be actively involved in day-to-day operations; however, they must provide clear guidance regarding acceptable risk exposure levels and ensure that appropriate policies, procedures, and practices have been established. Senior management is responsible for developing and implementing policies, procedures, and practices that translate the board's goals, objectives, and risk limits into prudent operating standards.

Depending on the nature and scope of an institution's activities, management practices may need to address some or all of the following risks: credit, market, operating or transaction, reputation, strategic, compliance, legal, liquidity, and other risks. Sound management practices are demonstrated by: active oversight by the board of directors and management; competent personnel; adequate policies, processes, and controls taking into consideration the size and sophistication of the institution; maintenance of an appropriate audit program and internal control environment; and effective risk monitoring and management information systems. This rating should reflect the board's and management's ability as it applies to all aspects of banking operations as well as other financial service activities in which the institution is involved.

The capability and performance of management and the board of directors is rated based upon, but not limited to, an assessment of the following evaluation factors:

- The level and quality of oversight and support of all institution activities by the board of directors and management.
- The ability of the board of directors and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the initiation of new activities or products.
- The adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities.
- The accuracy, timeliness, and effectiveness of management information and risk monitoring systems appropriate for the institution's size, complexity, and risk profile.
- The adequacy of audits and internal controls to: promote effective operations and reliable financial and regulatory

reporting; safeguard assets; and ensure compliance with laws, regulations, and internal policies.

- Compliance with laws and regulations.
- Responsiveness to recommendations from auditors and supervisory authorities.
- Management depth and succession.
- The extent that the board of directors and management is affected by, or susceptible to, dominant influence or concentration of authority.
- Reasonableness of compensation policies and avoidance of self-dealing.
- Demonstrated willingness to serve the legitimate banking needs of the community.
- The overall performance of the institution and its risk profile.

Ratings

1 A rating of 1 indicates strong performance by management and the board of directors and strong risk management practices relative to the institution's size, complexity, and risk profile. All significant risks are consistently and effectively identified, measured, monitored, and controlled. Management and the board have demonstrated the ability to promptly and successfully address existing and potential problems and risks.

2 A rating of 2 indicates satisfactory management and board performance and risk management practices relative to the institution's size, complexity, and risk profile. Minor weaknesses may exist, but are not material to the safety and soundness of the institution and are being addressed. In general, significant risks and problems are effectively identified, measured, monitored, and controlled.

3 A rating of 3 indicates management and board performance that need improvement or risk management practices that are less than satisfactory given the nature of the institution's activities. The capabilities of management or the board of directors may be insufficient for the type, size, or condition of the institution. Problems and significant risks may be inadequately identified, measured, monitored, or controlled.

4 A rating of 4 indicates deficient management and board performance or risk management practices that are inadequate considering the nature of an institution's activities. The level of problems and risk exposure is excessive. Problems and significant risks are inadequately identified, measured, monitored, or controlled and require immediate action by the board and management to preserve the soundness of the institution. Replacing or

strengthening management or the board may be necessary.

5 A rating of 5 indicates critically deficient management and board performance or risk management practices. Management and the board of directors have not demonstrated the ability to correct problems and implement appropriate risk management practices. Problems and significant risks are inadequately identified, measured, monitored, or controlled and now threaten the continued viability of the institution. Replacing or strengthening management or the board of directors is necessary.

Earnings

This rating reflects not only the quantity and trend of earnings, but also factors that may affect the sustainability or quality of earnings. The quantity as well as the quality of earnings can be affected by excessive or inadequately managed credit risk that may result in loan losses and require additions to the allowance for loan and lease losses, or by high levels of market risk that may unduly expose an institution's earnings to volatility in interest rates. The quality of earnings may also be diminished by undue reliance on extraordinary gains, nonrecurring events, or favorable tax effects. Future earnings may be adversely affected by an inability to forecast or control funding and operating expenses, improperly executed or ill-advised business strategies, or poorly managed or uncontrolled exposure to other risks.

The rating of an institution's earnings is based upon, but not limited to, an assessment of the following evaluation factors:

- The level of earnings, including trends and stability.
- The ability to provide for adequate capital through retained earnings.
- The quality and sources of earnings.
- The level of expenses in relation to operations.
- The adequacy of the budgeting systems, forecasting processes, and management information systems in general.
- The adequacy of provisions to maintain the allowance for loan and lease losses and other valuation allowance accounts.
- The earnings exposure to market risk such as interest rate, foreign exchange, and price risks.

Ratings

1 A rating of 1 indicates earnings that are strong. Earnings are more than sufficient to support operations and maintain adequate capital and allowance levels after consideration is

given to asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings.

2 A rating of 2 indicates earnings that are satisfactory. Earnings are sufficient to support operations and maintain adequate capital and allowance levels after consideration is given to asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings. Earnings that are relatively static, or even experiencing a slight decline, may receive a 2 rating provided the institution's level of earnings is adequate in view of the assessment factors listed above.

3 A rating of 3 indicates earnings that need to be improved. Earnings may not fully support operations and provide for the accretion of capital and allowance levels in relation to the institution's overall condition, growth, and other factors affecting the quality, quantity, and trend of earnings.

4 A rating of 4 indicates earnings that are deficient. Earnings are insufficient to support operations and maintain appropriate capital and allowance levels. Institutions so rated may be characterized by erratic fluctuations in net income or net interest margin, the development of significant negative trends, nominal or unsustainable earnings, intermittent losses, or a substantive drop in earnings from the previous years.

5 A rating of 5 indicates earnings that are critically deficient. A financial institution with earnings rated 5 is experiencing losses that represent a distinct threat to its viability through the erosion of capital.

Liquidity

In evaluating the adequacy of a financial institution's liquidity position, consideration should be given to the current level and prospective sources of liquidity compared to funding needs, as well as to the adequacy of funds management practices relative to the institution's size, complexity, and risk profile. In general, funds management practices should ensure that an institution is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and to fulfill the legitimate banking needs of its community. Practices should reflect the ability of the institution to manage unplanned changes in funding sources, as well as react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. In addition, funds management practices should ensure that liquidity is not maintained at a high cost, or through undue reliance on funding sources that may not be available in

times of financial stress or adverse changes in market conditions.

Liquidity is rated based upon, but not limited to, an assessment of the following evaluation factors:

- The adequacy of liquidity sources compared to present and future needs and the ability of the institution to meet liquidity needs without adversely affecting its operations or condition.
- The availability of assets readily convertible to cash without undue loss.
- Access to money markets and other sources of funding.
- The level of diversification of funding sources, both on- and off-balance sheet.
- The degree of reliance on short-term, volatile sources of funds, including borrowings and brokered deposits, to fund longer term assets.
- The trend and stability of deposits.
- The ability to securitize and sell certain pools of assets.
- The capability of management to properly identify, measure, monitor, and control the institution's liquidity position, including the effectiveness of funds management strategies, liquidity policies, management information systems, and contingency funding plans.

Ratings

1 A rating of 1 indicates strong liquidity levels and well-developed funds management practices. The institution has reliable access to sufficient sources of funds on favorable terms to meet present and anticipated liquidity needs.

2 A rating of 2 indicates satisfactory liquidity levels and funds management practices. The institution has access to sufficient sources of funds on acceptable terms to meet present and anticipated liquidity needs. Modest weaknesses may be evident in funds management practices.

3 A rating of 3 indicates liquidity levels or funds management practices in need of improvement. Institutions rated 3 may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices.

4 A rating of 4 indicates deficient liquidity levels or inadequate funds management practices. Institutions rated 4 may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet liquidity needs.

5 A rating of 5 indicates liquidity levels or funds management practices so critically deficient that the continued viability of the institution is threatened. Institutions rated 5 require immediate external financial assistance to meet

maturing obligations or other liquidity needs.

Sensitivity to Market Risk

The sensitivity to market risk component reflects the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect a financial institution's earnings or economic capital. When evaluating this component, consideration should be given to: management's ability to identify, measure, monitor, and control market risk; the institution's size; the nature and complexity of its activities; and the adequacy of its capital and earnings in relation to its level of market risk exposure.

For many institutions, the primary source of market risk arises from nontrading positions and their sensitivity to changes in interest rates. In some larger institutions, foreign operations can be a significant source of market risk. For some institutions, trading activities are a major source of market risk.

Market risk is rated based upon, but not limited to, an assessment of the following evaluation factors:

- The sensitivity of the financial institution's earnings or the economic value of its capital to adverse changes in interest rates, foreign exchange rates, commodity prices, or equity prices.
- The ability of management to identify, measure, monitor, and control exposure to market risk given the institution's size, complexity, and risk profile.
- The nature and complexity of interest rate risk exposure arising from nontrading positions.
- Where appropriate, the nature and complexity of market risk exposure arising from trading and foreign operations.

Ratings

1 A rating of 1 indicates that market risk sensitivity is well controlled and that there is minimal potential that the earnings performance or capital position will be adversely affected. Risk management practices are strong for the size, sophistication, and market risk accepted by the institution. The level of earnings and capital provide substantial support for the degree of market risk taken by the institution.

2 A rating of 2 indicates that market risk sensitivity is adequately controlled and that there is only moderate potential that the earnings performance or capital position will be adversely affected. Risk management practices are satisfactory for the size, sophistication, and market risk accepted by the

institution. The level of earnings and capital provide adequate support for the degree of market risk taken by the institution.

3 A rating of 3 indicates that control of market risk sensitivity needs improvement or that there is significant potential that the earnings performance or capital position will be adversely affected. Risk management practices need to be improved given the size, sophistication, and level of market risk accepted by the institution. The level of earnings and capital may not adequately support the degree of market risk taken by the institution.

4 A rating of 4 indicates that control of market risk sensitivity is unacceptable or that there is high potential that the earnings performance or capital position will be adversely affected. Risk management practices are deficient for the size, sophistication, and level of market risk accepted by the institution. The level of earnings and capital provide inadequate support for the degree of market risk taken by the institution.

5 A rating of 5 indicates that control of market risk sensitivity is unacceptable or that the level of market risk taken by the institution is an imminent threat to its viability. Risk management practices are wholly inadequate for the size, sophistication, and level of market risk accepted by the institution.

By Order of the Board of Directors dated at Washington, D.C., this 20th day of December, 1996.

Federal Deposit Insurance Corporation.

Jerry L. Langley,

Executive Secretary.

[FR Doc. 97-155 Filed 1-3-97; 8:45 am]

BILLING CODE 6714-01-P

FEDERAL MARITIME COMMISSION

Notice of Agreement(s) Filed

The Commission hereby gives notice of the filing of the following agreement(s) under the Shipping Act of 1984.

Interested parties can review or obtain copies of agreements at the Washington, DC offices of the Commission, 800 North Capitol Street, NW., Room 962. Interested parties may submit comments on an agreement to the Secretary, Federal Maritime Commission, Washington, DC 20573, within 10 days of the date this notice appears in the Federal Register.

Agreement No.: 202-011375-027.

Title: Trans-Atlantic Conference Agreement.

Parties: POL-Atlantic, Orient Overseas Container Line (UK) Ltd., Transportacion Maritima Mexicana, S.A. de C.V., Neptune Orient Lines Ltd., Hyundai Merchant Marine Co., Ltd., P&O Containers Limited, Nippon Yusen Kaisha, Tecomar S.A. de C.V., Hanjin Shipping Co., Ltd., Atlantic Container Line AB, Cho Yang Shipping Co. Ltd., Sea-Land Service, Inc., A.P. Moller-Maersk Line, Nedlloyd Lijnen BV, Hapag Lloyd Ag, Mediterranean Shipping Co., S.A., DSR-Senator Lines.

Synopsis: The proposed modification, which pertains to through intermodal point rates, exempts service contracts covering "non-containerizable cargo" and/or shipments to and/or from any place in the former Soviet Union from the requirement that rates for through transportation to and/or from inland points covered by contracts be constructed only by combining rates covering inland portions with rates covering ocean port-to-port portions. Such shipments are also exempt from the application of standard assessorial charges published in tariffs of the contracting carrier parties. The above exemptions expire on December 31, 1997.

Agreement No.: 232-011559.

Title: CMA/Croatia Line Reciprocal Space Charter, Sailing and Cooperative Working Agreement.

Parties: Compagnie Maritime D'Affretement ("CMA") Croatia Line Rijeka ("Croatia Line").

Synopsis: The proposed Agreement authorizes the parties to charter space to and from each other on vessels they operate in the trades between U.S. East Coast ports, and inland and coastal points served via those ports, and ports and points of the Mediterranean Sea, Red Sea, Arabian Gulf and Indian Subcontinent. The parties may also coordinate their sailings, jointly advertise sailings, establish equipment pools, and jointly contract for terminal and other shoreside services. The parties have requested expedited approval.

Agreement No.: 224-201012.

Title: Port of Oakland/American President Lines Preferential Crane Assignment.

Parties: The City of Oakland ("Port") American President Lines, Ltd. ("APL").

Synopsis: The proposed agreement authorizes APL the nonexclusive preferential right to use three container cranes and other equipment at berths 60-63 at the Port's Middle Harbor Terminal Area.

By order of the Federal Maritime Commission.

Dated: December 30, 1996.

Joseph C. Polking,

Secretary.

[FR Doc. 97-111 Filed 1-3-97; 8:45 am]

BILLING CODE 6730-01-M

Notice of Agreement(s) Filed

The Commission hereby gives notice of the filing of the following agreement(s) under the Shipping Act of 1984.

Interested parties can review or obtain copies of agreements at the Washington, DC offices of the Commission, 800 North Capitol Street, N.W., Room 962. Interested parties may submit comments on an agreement to the Secretary, Federal Maritime Commission, Washington, DC 20573, within 10 days of the date this notice appears in the Federal Register.

Agreement No.: 224-201014.

Title: Port of San Francisco/Madrigal-Wan Hai Lines Terminal Agreement.

Parties: City and County of San Francisco ("Port"), Madrigal-Wan Hai Lines ("Madrigal").

Synopsis: The proposed Agreement grants Madrigal the non-exclusive right to use the Port's South Container Terminal, located at piers 94/96, and provides for discounted dockage and wharfage rates. The Agreement's term is five years.

Agreement No.: 224-201014-001.

Title: Port of San Francisco/Madrigal-Wan Hai Lines Terminal Agreement.

Parties: City and County of San Francisco ("Port"), Madrigal-Wan Hai Lines ("Madrigal").

Synopsis: The proposed amendment provides that the Port will indemnify, defend and hold Madrigal harmless from all losses, expenses, claims, actions or liabilities to the extent they are caused by the negligence or willful misconduct of the Port.

By order of the Federal Maritime Commission.

Dated: December 31, 1996.

Ronald D. Murphy,

Assistant Secretary.

[FR Doc. 97-166 Filed 1-3-97; 8:45 am]

BILLING CODE 6730-01-M

Ocean Freight Forwarder License Applicants

Notice is hereby given that the following applicants have filed with the Federal Maritime Commission applications for licenses as ocean freight forwarders pursuant to section 19 of the Shipping Act of 1984 (46 U.S.C. app. 1718 and 46 CFR part 510).