Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
National Credit Union Administration
State Financial Regulators

Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions

June 2020

Purpose

The federal financial institution regulatory agencies[1] in conjunction with the state bank and credit union regulators are jointly issuing this examiner guidance to outline the supervisory principles for assessing the safety and soundness of institutions[2] given the ongoing impact of the COVID-19 pandemic.[3] In assessing an institution under the principles in this document, examiners will consider the institution's asset size, complexity, and risk profile, as well as the industry and business focus of its customers.

Examiners will consider the unique, evolving, and potentially long-term nature of the issues confronting institutions and exercise appropriate flexibility in their supervisory response. Stresses caused by COVID-19 can adversely impact an institution's financial condition and operational capabilities, even when institution management has appropriate governance and risk management systems in place to identify, monitor, and control risk. Examiners will continue to assess institutions in accordance with existing agency policies and procedures and may provide supervisory feedback, or downgrade an institution's composite or component ratings, when conditions have deteriorated. In conducting their supervisory assessment, examiners will consider whether institution management has managed risk appropriately, including taking appropriate actions in response to stresses caused by COVID-19 impacts.

The agencies have issued numerous statements related to supervisory policy since the declaration of the national emergency. Appropriate actions taken by institutions in good faith reliance on such statements, within applicable timeframes described in such statements, will not be subject to criticism or other supervisory action.

[1] The federal financial institution regulatory agencies are the Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System (Board), Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA) (collectively, the agencies).

[2] Institutions include insured depository institutions, U.S. operations of foreign banking organizations (FBOs), bank holding companies, savings and loan holding companies, federally insured credit unions, and Edge Act corporations.

[3] See Proclamation 9994, Declaring a National Emergency Concerning the Novel Coronavirus Disease COVID-19 Outbreak, 85 FR 15337 (March 18, 2020)

Background

The adverse economic effects of the pandemic will likely have a significant impact on the business activities of institutions and their customers for an extended period. The containment measures adopted in response to public health concerns resulted in restrictions on the physical movement of institutions' personnel and those of their service providers and customers, which, in turn, have created significant operational challenges. In addition, government programs and policies intended to provide support and assistance to those affected by the pandemic have impacted institutions' economic and regulatory landscape. The overall impact of, and recovery from, the pandemic could be uneven and highly localized across the country.

Some institutions may face extensive asset quality issues caused by business failures, the loss of jobs, interruptions of borrowers' income streams, increases in borrowers' operating costs, and volatile or declining collateral values. Many institutions have also materially modified operational processes to continue providing products and services while adhering to stay-at-home and social distancing guidelines. These modifications, including extensive use of work-at-home strategies and the need to quickly implement various stimulus programs, may have stressed change management processes. Operational, compliance, and cyber risks may increase for many institutions, and internal controls may need to evolve as risks and operations change.

Overall Supervisory Assessment

It is essential that examiners maintain a clear understanding of the financial condition of each institution and the effectiveness of each institution's risk assessment and response to the economic changes. To promote consistency and transparency across the agencies, examiners will continue to assign supervisory ratings in accordance with the applicable rating system, including the *Uniform Financial Institutions Rating System*, commonly referred to as the CAMELS rating[4] and the interagency *Rating System for U.S. Branches and Agencies of Foreign Banking Organizations*, commonly referred to as the ROCA rating.[5] Similarly, Federal Reserve examiners will apply the principles outlined in this letter in assigning supervisory ratings to bank holding companies, U.S. intermediate holding companies, and savings and loan holding companies using the RFI/C(D) rating system or LFI rating system,[6] as applicable, and to the U.S. operations of foreign banking organizations.[7] In applying the principles in this document, examiners will consider the

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[4] See the Federal Financial Institutions Examination Council's (FFIEC's) Uniform Financial Institutions Rating System, FR 67021 (December 19, 1996). NCUA examiners will refer to NCUA Letter to Credit Unions 07-CU-12, CAMEL Rating System when assigning the CAMEL ratings (December 2007).

[5] See the Board's Supervision and Regulation Letter (SR Letter) Enhancements to the Interagency Program for Supervising the U.S. Operations of Foreign Banking Organizations SR 00-14 (October 23, 2000); the OCC Comptroller's Handbook, Bank Supervision Process, "ROCA Rating System"; and the FDIC's Risk Management Manual of Examination Policies Section 11.1 – International Banking.

[6] See Board's SR Letter 19-4/CA Letter 19-3 Supervisory Rating System for Holding Companies with Total Consolidated Assets Less Than $100 Billion, and SR Letter 19-3/CA Letter 19-2 Large Financial Institution (LFI) Rating System.

[7] Federal Reserve examiners should refer to Footnote 5.

institution's asset size, complexity, and risk profile as well as the industry and business focus of its customers.

Examiners should assess the reasonableness of management's actions in response to the pandemic given the institution's business strategy and operational capacity in the distressed economic and business environment in which the institution operates. When assigning the composite and component ratings, examiners will review management's assessment of risks presented by the pandemic, considering the institution's size, complexity, and risk profile. When assessing management, examiners will consider management's effectiveness in responding to the changes in the institution's business markets and whether the institution has addressed these issues in its longer-term business strategy.

An examiner's assessment may result in downgrading component or composite ratings for some institutions. In considering the supervisory response for institutions accorded a lower rating, examiners will give appropriate recognition to the extent to which weaknesses are caused by external economic problems related to the pandemic versus risk management and governance issues. Examiners will also consider the extent to which institutions have taken actions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of the pandemic.

When considering whether to take a formal or informal enforcement action in response to issues related to the pandemic, the agencies will consider whether an institution's management has appropriately planned for financial resiliency and continuity of operations; implemented prudent policies; and is pursuing realistic resolution of the issues confronting the institution. In instances where a formal or informal supervisory action is warranted, the agencies will tailor their response to the institution's specific issues and the willingness and ability of institution management to resolve the issues.

Effectiveness of Institution's Assessment of Risk

Examiners should evaluate management's initial and ongoing assessment of the risk that the pandemic presents to the institution.[8] Examiners should determine whether management's assessment of credit risk reasonably reflects the institution's asset quality, given the prevailing economic conditions in its business markets. In addition to determining the effect on asset quality, examiners should assess management's understanding of the pandemic's effects on the institution's earnings prospects and capital adequacy, as well as its effect on funding, liquidity, operations, and sensitivity to market risk. The risks associated with the COVID-19 pandemic, as well as impacts of policy responses, can be challenging to assess in real time. Examiners will assess an institution's risk identification and reporting processes given the level of information available and stage of local economic recovery.

[8] See the Interagency Guidelines Establishing Standards for Safety and Soundness (Interagency Safety and Soundness Standards), which indicate that an institution should have an effective risk assessment process as part of its internal controls and information systems that is appropriate to the size of the institution and the nature, scope and risk of its activities. OCC: 12 CFR Part 30, Appendix A; Board: 12 CFR Part 208, Appendix D-1; and FDIC: 12 CFR Part 364, Appendix A. See also the Interagency Guidance on Credit Risk Review Systems. NCUA examiners should also refer to Supervisory Letter (SL) 13-12 on Enterprise Risk Management SL 13-12, shared with federally insured credit unions through Letter to Credit Unions 13-CU-12.

Examiners should determine whether an institution's assessment of risk is sufficient in scope and content. In reviewing the assessments, examiners should recognize that the issues confronting institutions are complex, evolving, and may involve protracted resolution. Examiners also will be mindful that the localized impact of the pandemic may be materially different from regional or national impacts. The examination scope may need to be adjusted depending on the quality and thoroughness of management's assessment of risk. The quality of an institution's risk assessments will be considered, as appropriate, in the examiner's assessment of supervisory ratings.

CAMELS or ROCA Component Ratings

When assessing the component ratings for CAMELS or ROCA, or analogous component ratings for holding companies, examiners will consider the following:

Capital Adequacy[9]

Institutions may experience cash flow decreases, asset losses, operational losses, extraordinary expenses, unexpected deposit growth or declines, and contingent liabilities as a result of the pandemic. The agencies have encouraged institutions to use their capital buffers to promote lending activities and other financial intermediation activities in a safe and sound manner.[10] The agencies recognize institutions may experience significant temporary balance sheet growth due to increased lending, unusually large deposit inflows, or inflows from various government programs. Such growth may result in a temporary decline in institutions' regulatory capital ratios.

Examiners will evaluate capital relative to the nature and extent of the institution's risks. When evaluating the capital component, examiners will consider the institution's capital planning efforts. Examiners will evaluate the institution's capital projections and whether institution management appropriately assesses the institution's capital needs and vulnerabilities related to the pandemic and consistent with the institution's risks. If an institution's risk profile is not supported appropriately by its capital levels, examiners should determine whether management has a satisfactory plan to maintain capital adequacy and, if needed, build capital. Examiners should discuss with management the institution's plans for ensuring capital adequacy. In assessing capital adequacy, examiners will consider the institution's regulatory capital ratios, capital planning and distribution plans, risk management practices, and whether an institution maintains a fundamentally sound financial condition.

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[9] Branches and agencies of FBOs do not maintain regulatory capital separate from their foreign parent organizations. Federal branches and agencies of FBOs are instead required to maintain capital equivalency deposits as set forth in 12 CFR 28.15, and state-licensed branches and agencies may be subject to similar requirements through their respective state supervisors.

[10] See Regulatory Capital Rule: Eligible Retained Income. OCC 12 CFR Part 3; Board 12 CFR Part 217; and FDIC 12 CFR Part 324.

Asset Quality

Examination scopes may need to be adjusted to reflect the significance of affected loan and investment portfolios. Examiners will continue to assess credits in line with the interagency credit classification standards,[11] while recognizing the constraints posed by the pandemic. For instance, supporting file documentation may be limited due to unusual circumstances caused by the pandemic. When assessing asset quality, examiners should consider whether management has been able to identify loans and investments substantially affected by the pandemic and recognize any deterioration in a timely manner, including any potential loss exposure.

Examiners will assess management's ability to implement prudent credit modifications and underwriting, maintain appropriate loan risk ratings, designate appropriate accrual status on affected loans, and provide for an appropriate Allowance for Loan and Lease Losses (ALLL) or Allowances for Credit Losses (ACLs), as applicable. In making these assessments, examiners will give consideration to the items below.

Classification of Credits. The assessment of each loan should be based on the fundamental characteristics affecting the collectability of that particular credit, while acknowledging that supporting documentation may be limited and cash flow projections may be highly uncertain. Where this uncertainty exists, examiners will review management's assessment of the borrower's repayment ability and financial condition as well as the institution's collateral protection. Examiners will not subject a renewed, extended, or modified loan to adverse classification solely because the value of the underlying collateral has declined to an amount that is less than the loan balance, provided that the borrower has ability to repay its debts according to reasonable modified terms.

Examiners should apply appropriate credit classification and charge-off standards in cases where the information indicates a loan will not be repaid under reasonable terms. Examiners should also assess the reasonableness of management's plans for workouts and pursuing foreclosure of collateral on nonperforming assets.

Credit Risk Review. Examiners will recognize that the rapidly changing environment and limited operational capacity may temporarily affect the institution's ability to meet normal expectations of loan review (e.g. schedule or scope of reviews). Examiners will assess the institution's support for any delays or reductions in scope of credit risk reviews and consider management's plan to complete appropriate reviews within a reasonable amount of time.

New Loans. Examiners will assess the appropriateness of the institution's underwriting standards. Examiners should assess underwriting by reviewing a sample of loans originated during or after the pandemic, or by reviewing the institution's reports, as appropriate. There may be legitimate reasons why management may have eased underwriting standards during or after the pandemic to address the needs of the institution's customer base. Institutions were encouraged by regulators to work with their borrowers throughout the crisis. Management may need to rely more heavily on

[11] Agency examiners should refer to the Uniform Agreement on the Classification and Appraisal of Securities Held by Depository Institutions (October 2013). Federal Reserve examiners should also refer to the Commercial Bank Examination Manual, sections 2060.1, *Classification of Credits* and 2130.1, *Consumer Credit*. NCUA examiners should refer to the *Credit Risk Rating Systems* content in the NCUA Examiner's Guide.

pro forma financial information from borrowers in making underwriting decisions. Examiners should review management's analysis of borrower projections given the local economic conditions during the recovery. In addition, management may have changed the institution's business strategy to focus on new lines of business or expand into new markets. If the institution's business strategy changed, examiners should consider whether the institution has sufficient controls and expertise for the new or expanded activities.

Paycheck Protection Program. The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) provided relief to small businesses through loan programs administered by the Small Business Administration (SBA), with the backing of the U.S. Department of the Treasury, including the Paycheck Protection Program (PPP).[12] The agencies view the PPP as an important program to help institutions continue to lend to customers in need, without exposing the institution to credit risk, so long as the institution follows SBA's program guidelines. Moreover, in assessing an institution's safety and soundness, examiners will not criticize institutions that participate in the PPP in accordance with SBA program guidelines. The agencies have been supportive of institutions that elected to participate in the PPP and use the Federal Reserve's PPP Liquidity Facility[13] to fund PPP loans.[14]

Credit Modifications. The agencies have encouraged institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of the pandemic.[15] Specifically, the agencies have stated that they view loan modification programs as positive actions that can mitigate adverse effects on borrowers due to the pandemic. Examiners should assess the appropriateness of an institution's policies and procedures for credit renewals, extensions, or modifications. Examiners will not criticize institutions for working with borrowers as part of a risk mitigation strategy intended to improve existing loans, even if the restructured loans have or develop weaknesses that ultimately result in adverse credit classification. In assessing an institution's safety and soundness, examiners will not criticize management for engaging in prudent loan modifications and working with borrowers in a safe and sound manner.

In assessing an institution's loan modification practices, examiners will review loan modifications to evaluate whether management is applying appropriate loan risk grades and making appropriate accrual status decisions on loans affected by the pandemic. Examiners will exercise judgment in reviewing loan modifications and not automatically adversely risk rate credits that were modified.

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[12] See SBA's Paycheck Protection Program Interim Final Rule 13 CFR Part 120 (April 2, 2020)

[13] See Federal Reserve's Paycheck Protection Program Liquidity Facility (PPPLF).

[14] The FDIC, Federal Reserve and OCC issued the Paycheck Protection Program Lending Facility and Paycheck Interim Final Rule (April 13, 2020) and the PPPLF/PPP Interim Final Rule Correction (April 23, 2020) to modify the agencies' capital rules to neutralize the regulatory capital effects of participating in the Federal Reserve's PPPLF. Consistent with the agencies' current capital rules and the CARES Act requirements, the interim final rule also clarifies that a zero percent risk weight applies to loans covered by the PPP for capital purposes. See OCC 12 CFR Part 3, Board 12 CFR Part 217, and FDIC 12 CFR Part 324. The NCUA issued an interim final rule to provide consistent capital treatment for credit unions participating in the PPPLF and codify the CARES Act requirement that PPP loans are risk weighted at zero percent for purposes of risk-based net worth. See 85 FR 23212.

[15] See Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) (Revised Interagency Statement). (April 7, 2020)

When evaluating loan modification practices, examiners will consider the CARES Act and Revised Interagency Statement. Among other things, the CARES Act provides institutions the option to temporarily suspend certain requirements under U.S. generally accepted accounting principles (GAAP) related to troubled debt restructurings for a limited period of time to account for the effects of the pandemic.[16] The Revised Interagency Statement addresses accounting and reporting considerations for loan modifications eligible under the CARES Act and for those that are not eligible, or where the institution elects not to apply the relief provided under the CARES Act.

***Nonaccrual*.** Institutions may allow borrowers affected by the pandemic to defer payment of principal, interest, or both for a reasonable period with the expectation that the borrower will resume payments in the future. The Revised Interagency Statement indicates that during the short-term arrangements, these loans generally should not be reported as nonaccrual. Examiners should confirm that institutions continue to follow applicable regulatory reporting instructions, as well as the institutions' internal accounting policies, when reporting nonaccrual assets in regulatory reports. As information becomes available indicating repayment of a specific loan or accrued interest is in doubt, examiners should review institution practices against appropriate charge-off guidance regarding accrued interest and principal.

***Allowance for Loan and Lease Losses (ALLL) or Allowances for Credit Losses (ACLs)*.**[17]
Examiners should review an institution's methodology for calculating the ALLL or ACLs, as applicable.[18] In assessing whether the ALLL or ACLs are appropriate, examiners will assess whether management has considered relevant available information about the collectability of the institution's loan portfolio, along with any changes to the institution's lending practices and economic conditions as a result of the pandemic. Examiners should evaluate how an institution considered the effect of the pandemic in its ALLL or ACLs estimation process, as applicable, and whether the resulting estimates are in conformity with GAAP and regulatory reporting requirements. Additionally, examiners will assess management's process for updating estimates of loan losses in the ALLL or ACLs, as applicable, as the institution obtains additional information.

An institution may have difficulty in accurately determining the collectability of certain loans impacted by the pandemic. Therefore, examiners should understand that management may need to consider qualitative adjustments to credit loss estimates for information not already captured in the loss estimation process. These qualitative factor adjustments may increase or decrease management's estimate of credit losses. Examiners will recognize that management may need more time to determine the effect of the pandemic on some borrowers' ability to pay and assess the value of underlying collateral. Examiners should determine whether management has maintained the ALLL or ACLs, as applicable, at an appropriate level within a range of loss estimates even when loan-specific information is not yet available.

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[16] See Section 4013 the *Coronavirus Aid, Relief, and Economic Security Act*, Pub. L. 116-136.

[17] Maintenance of an ALLL or ACLs, as applicable, is not required for branches or agencies of FBOs.

[18] See Interagency Policy Statement on Allowances for Credit Losses (May 8, 2020) and Interagency Policy Statement on the Allowance for Loan and Lease Losses (2006).

Obligations of Taxing Authorities. Examiners should confirm that institutions monitor their risk exposures in municipal bonds to assess whether those bonds continue to be the credit equivalent of an investment grade security and are appropriately classified, consistent with the interagency credit classification standards.[19] Many public obligors and issuers have insurance or have access to debt payment and other reserve funds that help ensure the full and timely repayment of principal and interest for the projected life of the asset or exposure. However, examiners should confirm that management is using relevant information to conduct credit risk assessments that are timely, accurate, and consistent with internal policies, regulatory requirements, and accounting standards.

Examiners should review the institution's loan and investment portfolios to assess credit that has been extended to taxing authorities. For example, communities may be heavily dependent on local sales, hotel, property, and income tax revenues. These sources of revenue have fallen sharply with containment measures, and the ultimate collection of such loans and investments under reasonable terms may be adversely affected. Some loans and bonds may also be tied to limited purpose facilities, such as entertainment or sporting venues, which may not resume operations for an extended period.

Real Estate Values. The economic impact of the pandemic may result in fluctuations in real estate values. For existing and new real estate loans, examiners should assess the institution's policies and practices for valuing collateral in real estate markets that have experienced a substantial, but possibly temporary, change in real estate values as a result of pandemic containment measures. When reviewing an institution's estimates of collateral values, examiners should ascertain whether the values are based on assumptions that are prudent and realistic.

Appraisal and Evaluation Delays. The agencies have temporarily allowed supervised financial institutions to defer obtaining an appraisal or evaluation for up to 120 days after the closing of residential and commercial real estate loans (other than loans for acquisition, development, and construction of real estate).[20] Examiners should evaluate whether an institution is making best efforts to obtain a credible valuation of real property collateral before the loan closing and how any backlog of appraisals or evaluations is being addressed. Examiners will also evaluate if the institution's underwriting is consistent with the principles in the agencies' Standards for Safety and Soundness[21] and Real Estate Lending Standards[22] that focus on the ability of a borrower to repay a loan and compliance with other relevant laws and regulations.

[19] See Footnote 11.

[20] See Interim Final Rule on Real Estate Appraisals (April 14, 2020)

[21] See Footnote 8.

[22] OCC: 12 CFR Part 34, Subpart D, Appendix A; Board: 12 CFR Part 208, Subpart E, Appendix C; FDIC: 12 CFR Part 365, subpart A, Appendix A, and NCUA: 12 CFR Part 722 and §701.21. Institutions should have a program for establishing the market value of real property to comply with these real estate lending standards, which require institutions to determine the value used in loan-to-value calculations based in part on a value set forth in an appraisal or an evaluation.

Management

All institutions have been confronted with unprecedented issues, including limitations on employees' movements, sudden unanticipated financial impacts to their borrowers, limited physical access to facilities and other operational challenges. As part of the institution's risk management assessment, examiners will evaluate institution management based on the reasonableness of management's response to the pandemic. As additional information becomes available, examiners expect management to update risk assessments, measure the effectiveness of its response, and adjust, as necessary.

Examiners will evaluate institution management on its ability to properly identify and prudently manage risks associated with the pandemic. In doing so, examiners will consider the extraordinary circumstances surrounding the decisions made to work with borrowers and the large number of those impacted. Examiners should evaluate the extent to which management factors the results of these efforts into its longer-term business strategy. Strategies could evolve throughout the local and national recovery. Institutions may be compelled to reconsider branching, mergers, or other expansions.

When rating an institution's management, examiners will distinguish between problems caused by the institution's management and those caused by external factors beyond management's control. Provided prudent planning and policies are in place and management is pursuing realistic resolution of the institution's problems, management of an institution with problems largely related to the pandemic may warrant a more favorable rating than management of an institution operating with problems stemming from weak risk management practices that are, or should have been, substantially within the institution's control.

Operational Risk

In response to the COVID-19 pandemic, many institutions have quickly adapted certain operational processes and technology systems to ensure continued delivery of financial services and manage significant volumes of transactions due to government stimulus programs. Rapid changes in operational processes and increasing fraud and cyber threats may result in a heightened operational risk environment. Examiners will review the steps management has taken to assess and implement effective controls for new and modified operational processes. Examiners will assess actions management has taken to adapt fraud and cybersecurity controls to manage heightened risks related to the adjusted operating environment. Examiners will also review how management has assessed institutions' third parties' controls and service delivery performance capabilities post crisis. Additionally, examiners will consider the impacts on the control environment from instances of imprudent cost cutting, insufficient staffing, or delays in implementing needed updates in their assessment of the institution.

Independent Risk Management and Audit

Examiners will consider how COVID-19-related responses may impact plans and schedules for internal audit and independent risk management reviews, including the need to incorporate audits or reviews of new operational processes and programs. Examiners should review the use of remote work technologies and teleconferencing systems for work-at-home arrangements, along with the elimination of physical controls present in many office environments. In addition, examiners should review risk management and audit monitoring of programs to support consumers and businesses such as PPP, mortgage deferrals, loan forbearance, and other new programs that may pose credit, legal, and compliance risks if not properly managed.

Earnings[23]

When evaluating earnings, examiners will consider the duration of any reductions to core earnings caused by the pandemic, including provisions and other expenses that may increase due to asset quality deterioration. Due to the increased level of loan modifications associated with the pandemic, levels of deferred interest in relation to total earnings may be elevated. When assessing earnings, examiners will evaluate how institutions are accounting for and estimating allowances for accrued interest from modified loans, as applicable, in accordance with GAAP and Call Report instructions. Ongoing operational issues, such as increased personnel, legal, IT, and fraud expenses may also impact earnings. Examiners should assess the quantity, quality, and trend of prior earnings as well as the pandemic's influence on earnings prospects. The impact on the institution's major business lines and significant customers should also be assessed. This assessment should consider the adequacy and reasonableness of any revisions to the institution's budget and strategic plan, including projections from participation in government programs related to the pandemic.

Liquidity[24]

There remains considerable uncertainty around the impact of COVID-19 on liquidity profiles. Examiners will consider the nature and timing of pandemic-related inflows and outflows when reviewing the adequacy of an institution's liquidity and be cognizant of how management is employing any influx of liquid resources. Institutions may experience fluctuations in liquidity resulting from the receipt of customers' Economic Assistance Payments, customers' flight to quality, participation in various government lending programs or borrowing facilities, or deposit outflows as depositors, including municipalities, draw on savings or reserves. In addition, collateral requirements for secured funding sources (such as a line of credit from a Federal Home Loan Bank) may be temporarily modified. Examiners will evaluate management's ability to reassess or revise liquidity planning to accommodate changes from the pandemic.

Examiners will not criticize an institution for appropriate use of the discount window or other Federal Reserve lending programs, or the NCUA's Central Liquidity Facility. Similarly, examiners will not criticize an institution's prudent use of its liquidity buffer to support economic recovery, in accordance with the institution's liquidity risk management framework.

Although the ROCA rating does not contain a liquidity component rating, funding, liquidity risk, and risk management are important factors in the assessment of branches and agencies of FBOs. Examiners will assess the effect of a pandemic on liquidity as part of the risk management component of the ROCA rating.

[23] The ROCA rating does not contain a component rating for earnings.

[24] The ROCA rating does not contain a component rating for liquidity.

<u>Sensitivity to Market Risk</u>[25]

Many institutions may experience temporary shifts in their interest rate risk profiles from changes in cash flows associated with the pandemic. For example, the amount or timing of cash flows may be altered by deterioration in loan and bond portfolios or by deferment agreements or programs.

Examiners will recognize that management may need time to fully assess any changes to the institution's interest rate risk profile and distinguish between permanent structural changes versus short-term fluctuations during a transitional period. Examiners should determine whether management has procedures for reviewing and updating its asset and liability management models for any unusual fluctuations in deposit balances, adjustments to loan payments, changes in interest rates, and other modifications to ensure the integrity, accuracy, and reasonableness of the models.

The ROCA rating does not contain a component for market sensitivity. However, examiners should consider sensitivity in the form of the interest rate risk profile, risk management, and effects from the pandemic in the assessment of the risk management component of the ROCA rating.

Risk Management of a Branch or Agency of an FBO

A pandemic will likely present challenges to the FBO head office of a branch or agency as well as local management. When considering risk management of branches and agencies of FBOs, examiners should focus on the assessment factors outlined in the interagency ROCA rating system, and consider these factors in the context of the pandemic. Examiners should evaluate the level of support provided by the home office in restoring operations and the appropriateness of risk management considering the changing operating environment and economic conditions due to a pandemic.

[25] The ROCA rating does not contain a component rating for sensitivity to market risk. The NCUA uses the CAMEL rating system, which does not include the S – sensitivity to market risk. NCUA examiners will continue to consider sensitivity to market risk and liquidity risk when rating the L component.