

# Banking Law

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## Stress Test Lite - Here's One for You!

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**In an effort to clarify the supervisory expectations for stress testing of banking organizations, the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency jointly issued a statement today stating that the recently proposed initiatives relating to stress testing requirements at larger banking organizations, including recently proposed rules under the Dodd-Frank Act, are not applicable to banking organizations with less than \$10 billion in assets.**

To avoid any doubt about its application, the joint regulatory agencies specifically stated that community banks are not required or expected to conduct the enterprise-wide stress tests required of larger organizations under the proposed rules implementing Dodd-Frank Act stress testing requirements. In the process of clarifying the applicability of stress testing, the regulators did remind all community banks that they must still maintain the internal capacity to analyze the impact of adverse events on their financial condition even if they are not required to comply with the direct stress testing procedures applicable to larger banking organizations.

A link to the statement can be found [here](#).

At Manatt, we have observed that countless community banks are indeed adopting variations of portfolio, liquidity and capital stress testing. Further, state and federal examiners encourage targeted stress testing of sensitive or concentrated risks at a minimum. In a companion Joint Press Release announcing their final large bank stress guidance, the regulatory agencies clearly stated their view of the importance of stress testing by all banks:

"The guidance highlights the importance of stress testing at banking organizations as an ongoing risk management practice that supports a banking organization's forward-looking assessment of its risks and better equips it to address a range of adverse outcomes. The recent financial crisis underscored the need for banking organizations to incorporate stress testing into their risk management practices, demonstrating that banking organizations unprepared for particularly adverse events and circumstances can suffer acute threats to their financial condition and viability."

In our view, the question is not whether community banks will adopt enterprise-wide stress testing as a prudent best practice, but rather when, at what cost and with what practical results?

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