



TEXAS DEPARTMENT OF BANKING

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SUPERVISORY MEMORANDUM – 1004

April 11, 2024

TO: All State-Chartered Trust Companies
All Bank and Trust Examining Personnel

FROM: Charles G. Cooper, Banking Commissioner

SUBJECT: Examination Frequency for Trust Companies¹

BACKGROUND

Section 181.104 of the Texas Finance Code (TFC) requires that the banking commissioner examine each state trust company annually, or on another periodic basis as may be required by rule or policy, or as the commissioner considers necessary to safeguard the interests of clients, creditors, shareholders, participants, or participant-transferees and efficiently enforce applicable law. Additionally, section 182.013 of the TFC allows the banking commissioner to examine or investigate an exempt² state trust company periodically, as necessary, to verify the annual certification required to be filed by an exempt state trust company.

PURPOSE

This Supervisory Memorandum specifically outlines the Department of Banking's (Department) examination priorities for trust companies and the types of examination scopes utilized. The applicability of this policy to exempt trust companies is specifically addressed in the Examination Scope and Frequency Schedule.

EXAMINATION FREQUENCY POLICY

The general policy of the Department is to conduct an on-site examination at every trust company at least annually. Trust companies which meet certain qualifying criteria may have the examination frequency extended to a maximum of 18 months. Qualifying criteria and examination frequency are outlined in the Examination Scope and Frequency Schedule included in this policy. Risk, and thus examination frequency, is generally determined by the supervisory ratings assigned to the

¹ This policy revises and supersedes the policy issued on March 15, 2018. Current revisions remove references to Level I Full Scope and Level II Full Scope examinations. These are now referred to as Full Scope examinations.

² A state trust company may request in writing that it be exempted from specified provisions of the TFC related to trust companies. The banking commissioner may grant a trust company the exemption if the banking commissioner finds that the state trust company does not transact business with the public and meets the qualifications in TFC §182.011.

trust company. Ratings definitions are found in Supervisory Memorandum 1002. Examinations performed by the Federal Deposit Insurance Corporation (FDIC) or Federal Reserve Bank (FRB) are considered acceptable for meeting these priorities when a trust company is an affiliate of a bank, under a bank holding company, or subject to FDIC or FRB review by federal statute.

EXAMINATION SCOPE

The scope of each examination is based upon circumstances of the individual trust company. The Department utilizes two types of examination scopes for trust companies: Full Scope, and Visitation. The Full Scope examination meets the requirements of the Department's examination priorities for measuring performance.

- A Full Scope Examination is the most comprehensive with the Department's examiners completing procedures that are designed to assess the safety and soundness of the trust company's operations and activities, resulting in an appropriate Trust Company Rating which includes Capital, Asset Quality, Management, Earnings, and Liquidity (CAMEL); and a Uniform Interagency Trust Rating which covers Management; Operations, Internal Controls, and Audits; Earnings; Compliance; and Asset Management (MOECA). A formal Report of Examination is produced for the trust company to review.
- A Visitation is a narrowly scoped examination which may focus on one or more Corporate or Fiduciary components, a specific risk area, or compliance with an enforcement action. The results of a Visitation will be documented with a Letter of Findings to the trust company.

If at any time it becomes apparent that the planned scope of supervisory activity should be expanded, the Department will not hesitate to do so.

EXAMINATION SCOPE AND FREQUENCY SCHEDULE

The following chart details the *general* criteria for determining the examination frequency of state-chartered trust companies for Safety and Soundness examinations. The frequency and scope outlined in the Examination Scope and Frequency Schedule meet the examination priorities of the Department. Examinations started 30 days or less after the due date are considered to meet the Department's performance measures. Examinations started 60 days or more before the due date or more than 30 days after the due date require approval by the Director of Bank and Trust Supervision and the Deputy Commissioner, or Commissioner.

**EXAMINATION SCOPE AND FREQUENCY SCHEDULE
FOR TRUST COMPANIES**

COMPOSITE RATING AND CRITERIA	EXAMINATION SCOPE AND FREQUENCY
3, 4 or 5 CAMEL or 3, 4 or 5 MOECA	Full Scope examination every 12 months. During the interim, at approximately 6 months, a Visitation may be conducted.
1 or 2 CAMEL or 1 or 2 MOECA and Fiduciary Assets less than \$10 Billion	Full Scope examination every 18 months.
1 or 2 CAMEL or 1 or 2 MOECA and Fiduciary Assets \$10 Billion or more	Full Scope examination every 12 months.
3-Rated Management and 1 or 2 CAMEL or 1 or 2 MOECA	Full Scope examination every 12 months.
Trust Company is a Subsidiary of a Bank or Bank Holding Company Regulated by the Department or one of the three Federal Bank Regulators - Any Rating	Full Scope examination following the examination frequency for the parent or affiliate bank as outlined in Supervisory Memorandum 1003. Trust companies rated 3,4, or 5 (CAMEL or MOECA) will receive a Full Scope examination annually. During the interim (i.e., at approximately 6 months), a Visitation may be conducted. A more frequent examination may also be required at the discretion of the Commissioner or Deputy Commissioner as per TFC §181.104.

COMPOSITE RATING AND CRITERIA	EXAMINATION SCOPE AND FREQUENCY
New Trust Company - Not Yet Rated	Visitation may occur within 6 months after opening at the discretion of the Director of Bank and Trust Supervision. Full Scope examinations will be conducted every 12 months for the first five years.
EXEMPT TRUST COMPANY	EXAMINATION SCOPE AND FREQUENCY
Exempt under Statute - Texas Finance Code §182.011 No Ratings Assigned.	Examination every 12 months to determine that the trust company meets the criteria for exempt status. An off-site review including an examination of the annual financial statement required under §181.107 of the Texas Trust Company Act ¹ may be substituted for an on-site examination; however, an on-site examination of an active exempt trust company must be conducted at least every 24 months. Conducting two consecutive off-site examinations of an active exempt trust company will be at the discretion of the Commissioner or Deputy Commissioner as per TFC §181.104. An inactive exempt trust company must have an on-site examination every three years.

An Information Technology (IT) review for a trust company should be performed to coincide with the examinations as outlined in Supervisory Memorandum 1020. Trust companies exempt under TFC §182.011 do not receive an IT examination.

EXCEPTIONS TO EXAMINATION FREQUENCY SCHEDULE

Exceptions may be made to the examination frequency schedule of a trust company depending upon the circumstances as determined by the Director of Bank and Trust Supervision and the Commissioner or the Deputy Commissioner. The following addresses when an examination schedule may be shortened or lengthened temporarily, and the authorization required.

Shortened Examination Frequency

A trust company that qualifies for an 18-month examination frequency cycle *may* be subject to a 12-month examination cycle as determined by the Director of Bank and Trust Supervision and the Commissioner or the Deputy Commissioner. A shortened examination cycle may be necessary for institutions operating under certain circumstances which include but are not limited to the following:

- a. a change of control during the preceding 12-month period;
- b. a formal or informal enforcement action;

¹ Title 3, Subtitle F of the Texas Finance Code.

- c. a Capital, Asset Quality, Earnings, or Liquidity component rating of “3”, “4”, or “5” as defined by the Uniform Financial Institutions Rating System; or
- d. an Operations, Internal Controls, and Audits; Earnings; Compliance; or Asset Management rating of “3”, “4”, or “5” as defined by the Uniform Interagency Trust Rating System.

Extended Examination Frequency

An extension to the examination frequency schedule for trust companies is permitted under certain circumstances. The reason(s) for the extension must be in writing, maintained with the institution’s records at the Department, and be approved by the Commissioner or the Deputy Commissioner.

The Commissioner has authority to extend the date of a Safety and Soundness or Information Technology examination up to six months predicated on extenuating circumstances including, but not limited to:

- a. an anticipated merger or acquisition with another institution;
- b. an anticipated change in charter;
- c. a disruption in normal operations due a natural disaster or state of emergency; or
- d. other significant reasons as determined by the Commissioner or Deputy Commissioner.

Extending an examination beyond six months requires approval of the Commissioner.

CONTACT INFORMATION

Questions regarding this policy may be directed to Jared Whitson, Director of Bank and Trust Supervision, at (512) 475-1300, or Sylvia Fry, Chief Trust Examiner, at (972) 935-8698.