



Charles G. Cooper  
Commissioner

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## **TEXAS DEPARTMENT OF BANKING**

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### **INDUSTRY NOTICE 2020-09**

*Date: June 23, 2020*

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

On June 23, 2020, state and federal banking agencies issued [guidance](#) to examiners for assessing the safety and soundness of financial institutions given the impact of the COVID-19 pandemic. The Texas Department of Banking contributed to the development of this guidance and examination staff will be assessing each financial institution following the supervisory principals outlined in the guidance.

Risk assessments are key for financial institutions. Generally, a risk is effectively managed when it is identified, measured, monitored, controlled, and reported. Management should update risk assessments, covering the full scope of the effects of the pandemic on the institution. Examiners will assess an institution's risk identification and reporting processes with consideration given to the institution's asset size, complexity, and risk profile, as well as the industry and business focus of its customers in light of COVID-19. For small community institutions engaged in limited or traditional activities, risk management systems may be less formal in scope and structure.

Examiners will place great emphasis on how well the institution has identified and is managing the risks arising from the pandemic. Changes in strategy, personnel, operations, and outlook should be highlighted. Participation in government programs and regulatory relief issuances should also be incorporated. The institution's capital levels should be considered given losses or potential losses from the pandemic.

If capital shortfalls are possible, the capital plan must establish how the institution's capital levels will be augmented. Credit concentrations or specific loan segments should also be addressed, whether they are long-standing or newly emerging from the pandemic. Senior management is expected to continuously report to the board of directors on the overall risk profile, including aggregate and emerging risks due to the pandemic.

The Department supports our financial institutions working with their customers adversely affected by the pandemic in a safe and sound manner. Examiners will remain focused on the borrower's ability to repay their debts according to reasonable terms and the ultimate collectability of the credits when determining the appropriate classification. Examiners will consider management's reasonable assessment of the borrower's ability to repay when confronted with uncertainty in the borrower's financial condition or collateral position.

The COVID-19 pandemic has changed the Department's approach to examinations. For the immediate future, examinations will be conducted offsite. Examiners will follow the tenets of this guidance while meeting our supervisory responsibilities. To accomplish this, the Department has temporarily revised our examination processes and procedures necessary to properly evaluate an institution's condition while being mindful of the burden an examination places on the financial institution's staff and resources. Communication is always an important aspect of an examination, and we are committed to ensuring communication is forthright and effective.

For questions or additional information about this notice, please [email](#) or call Jared Whitson at (512) 475-1354.