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The Fed's examiners privately warn regional banks to shore up their liquidity planning

Article

The news: **The Federal Reserve has privately sent warning notices to a slew of midsize lenders** with assets ranging from $100 billion to $250 billion, Bloomberg reports. The

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concerns range from the state of the banks' capital and liquidity to their technology and compliance.

- Among those warned are **Citizens Financial, Fifth Third, KeyCorp, M&T, Huntington, Regions,** and **First Citizens Banks**, Bloomberg said, citing persons familiar with the matter.

How it works: The warnings—known as **matters requiring attention (MRA)** and the more urgent **matters requiring immediate attention (MRIA)**—are issued by bank examiners who monitor a bank's safety and soundness.

- They're classed as confidential supervisory information, and usually require a board-level reply and a timeline for remediation.
- If banks don't resolve the problem promptly, the Fed could escalate to an enforcement action.
- Getting one isn't uncommon: As of June of last year, there were 157 supervisory findings across 18 firms larger than $100 billion, excluding the global systemically important banks, according to Fed data.

What they're looking at: Regulators are worried about any further signs of weakness in a banking system already strained by the collapses of **Silicon Valley Bank, Signature Bank,** and **First Republic Bank**. Banks of all sizes are getting closer scrutiny, but the banks receiving these warnings are in the same size range as the banks that failed.

- Examiners are checking the health of banks' balance sheets, particularly related to their holdings in Treasuries and other bonds, which have lost value due to the Fed's continual interest rate increases.
- They're also reviewing IT systems and compliance functions, ensuring banks can quickly access the Fed's Discount Window Service, a safety valve extending credit to them if needed.
- And they want proof that banks can easily sell off their portfolios of available-for-sale securities if they really have to raise cash.

The focus of these on-site examinations—deposits, liquidity, funding risk—is consistent with regulators' proposals to tighten up requirements for regional banks.

Why it matters: Those who scrutinize closely also come under close scrutiny. The Fed's self-critical report on what went wrong at Silicon Valley Bank admitted that supervisors had

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previously uncovered many of the issues that caused the bank to fail—but it also said they didn't make a strong enough effort to ensure it fixed what they'd pointed out.

- And during the Senate Banking Committee post-mortem, Senator Tim Scott of South Carolina said, "Our regulators appear to have been asleep at the wheel."
- Senator Jon Tester of Montana said, "It looks to me like the regulators knew the problem, but nobody dropped the hammer."

With their demands for corrective actions, examiners are showing they're awake now, and they'll drop lots of hammers—if they have to.

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