FDIC'S SUPERVISION OF SIGNATURE BANK

APRIL 28, 2023

FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

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Executive Summary

Introduction

On March 12, 2023, the New York State Department of Financial Services (NYSDFS) closed Signature Bank of New York (SBNY) and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver of the bank. SBNY was a full-service, commercial bank founded in 2001. As of December 31, 2022, SBNY had total deposits of $88.6 billion and total assets of $110.4 billion. SBNY was the 29th largest bank in the country, and its failure constituted the third largest bank failure in United States history. As of March 19, 2023, the FDIC estimated the cost of SBNY's failure to the Deposit Insurance Fund (DIF) to be approximately $2.5 billion. The exact cost will be determined when the FDIC terminates the receivership.

The FDIC was the primary federal regulator of SBNY and, in late March, FDIC Chairman Martin J. Gruenberg commissioned the FDIC's Chief Risk Officer to conduct an internal review of the agency's supervision of SBNY and produce a report to the FDIC Board of Directors for release to the public by May 1, 2023.

Background

SBNY was a state nonmember commercial bank headquartered in New York, New York. SBNY began operations in 2001 as a *de novo* bank. SBNY's main lines of business were commercial real estate (CRE) and commercial and industrial (C&I) lending, which were principally funded through uninsured deposits gathered from mid-sized commercial companies. Starting in 2018, SBNY began to expand its business model by launching other lending and deposit gathering initiatives, including a Fund Banking Division dedicated to providing financing and banking services to the private equity industry and a Digital Assets Banking Group to collect cash deposits and maintain operating accounts for various digital asset-related businesses. SBNY experienced tremendous deposit growth, primarily in large uninsured deposits, during 2020 and 2021, resulting in the bank's size more than doubling. In 2022, as interest rates began to rise and deposits began to contract due to volatility in the digital assets market, the bank experienced significant digital asset-related deposit outflows.

Causes of Failure and Material Loss

The primary cause of SBNY's failure was illiquidity precipitated by contagion effects in the wake of the announced self-liquidation of Silvergate Bank, La Jolla, California (Silvergate), on March 8, 2023, and the failure of Silicon Valley Bank, Santa Clara, California (SVB), on March 10, 2023, after both experienced deposit runs. However, the root cause of SBNY's failure was poor management. SBNY's board of directors and management pursued rapid, unrestrained growth without developing and maintaining adequate risk management practices and controls appropriate for the size, complexity and risk profile of the institution. SBNY management did not prioritize good corporate governance practices, did not always heed FDIC examiner concerns, and was not always responsive or timely in addressing FDIC supervisory recommendations (SRs). SBNY funded its rapid growth through an overreliance on uninsured deposits without implementing fundamental liquidity risk management practices and controls. Additionally, SBNY failed to understand the risk of its association with and reliance on crypto industry deposits or its vulnerability to contagion from crypto industry turmoil that occurred in late 2022 and into 2023. Although fallout from the liquidation of Silvergate and the failure of SVB was unprecedented and unfolded rapidly, SBNY's poor governance and inadequate risk management practices put the bank in a position where it could not effectively manage its liquidity in a time of stress, making it unable to meet very large withdrawal requests.

The FDIC's Supervision of Signature Bank

The FDIC conducted a number of targeted reviews and ongoing monitoring, issued Supervisory Letters and annual roll-up reports of examination (ROEs), and made a number of SRs to address supervisory concerns. In retrospect, FDIC could have escalated supervisory actions sooner, consistent with the Division of Risk Management Supervision's (RMS) forward-looking supervision concept. Additionally, examination work products could have been timelier and communication with SBNY's board and management could have been more effective.

Examination Activities and Ratings Assigned: In supervising SBNY, RMS staff in the FDIC's New York Regional Office (NYRO) employed a continuous examination process (CEP) that included assigning a dedicated team of examiners, conducting a number of targeted reviews, and issuing annual roll-up ROEs. The NYRO identified recurring liquidity risk management and other weaknesses, made numerous SRs including Matters Requiring Board Attention (MRBAs), and devoted significant resources to evaluating SBNY operations and risks. SBNY management's responsiveness and effectiveness in addressing SRs was mixed. Several SRs related to liquidity risk management, Bank Secrecy Act/Anti-Money Laundering (BSA/AML), and model risk management (MRM) remained outstanding for multiple examination cycles

From 2017 through March 11, 2023, the NYRO assigned a Composite "2" CAMELS rating[1] to SBNY, indicating that the overall condition of the bank was satisfactory.[2] In 2019, the NYRO downgraded SBNY's Liquidity component rating to "3" reflecting a need for improvement. However, the NYRO rated SBNY's board and management performance as satisfactory until March 11, 2023. Given the recurring liquidity control weaknesses, SBNY's unrestrained growth, and management's slow response to address findings, it would have been prudent to downgrade the Management component rating to "3," (i.e., needs improvement) as early as the second half of 2021. Doing so would have been consistent with RMS' forward-looking supervision concept, likely lowered SBNY's Composite rating, and supported consideration of an enforcement action.

Timeliness and Communication with the SBNY Board and Management: The FDIC's communication of examination results to SBNY's board and management was often not timely. Targeted review Supervisory Letters and annual roll-up ROEs frequently exceeded elapsed-day benchmarks and in some cases were significantly delayed. While staffing shortages and work quality impacted timeliness, NYRO management's linear implementation of the CEP contributed to timeliness issues, and, in at least one case, resulted in a current-year targeted review being withheld until the prior year annual roll-up ROE was released. A NYRO lessons learned review following SBNY's failure concluded

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[1] Bank examiners review and evaluate an institution's condition using the Uniform Financial Institutions Rating System, also known as CAMELS (Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk). CAMELS ratings are scored on a scale of "1" (best) to "5" (worst). Examiners assign a rating for each CAMELS component and an overall Composite rating.

[2] On March 11, 2023, the FDIC lowered SBNY's Composite rating to "5," Management and Liquidity component ratings to "5," and Capital component rating to "3."

there were opportunities for examiners to engage more frequently with bank management and the board and provide clearer, timelier messages to SBNY executives regarding identified weaknesses.

Examination Team Resource Challenges: The FDIC experienced resource challenges with examination staff that affected the timeliness and quality of SBNY examinations. From 2017 to 2023, the FDIC was not able to adequately staff an examination team dedicated to SBNY (Dedicated Team). Certain targeted reviews were not completed timely or at all because of resource shortages. These vacancies and the adequacy of the skillsets of the Dedicated Team contributed to timeliness and work quality issues and slowed earlier identification and reporting of SBNY weaknesses.

Beyond SBNY, the NYRO has experienced persistent staffing shortages within its large financial institution (LFI) examiner ranks. Since 2020, an average of 40 percent of the LFI positions in the NYRO have been vacant or filled by temporary staff, and a number of large bank dedicated teams have significant vacancies. Several other FDIC regions also have an elevated number of LFI examiner vacancies. RMS officials in the NYRO and at FDIC headquarters identified multiple reasons for LFI staffing challenges, including the high cost of living in New York, competition from other regulators and private sector firms that can pay more for talent than the federal government, and competition for LFI staff from other FDIC Divisions and headquarters, which may offer greater work-life flexibilities or higher-graded positions. RMS officials also stated that the impact of the pandemic on New York City and surrounding areas negatively affected staff desires to post and move for permanent positions in the region. In addition, LFI roles such as the dedicated examiner-in-charge (EIC) are demanding positions with a significant workload.

NYRO management indicated that it had raised staffing concerns to RMS headquarters officials multiple times since 2020. RMS agreed that NYRO management raised concerns and described actions taken to address LFI resource challenges. In 2021, RMS established an FDIC Performance Goal to review the CEP and the NYRO led a Staffing Resources Working Group to evaluate and make recommendations for improving the CEP. The Working Group crafted recommendations to make CEP examiner positions more attractive by, for example, increasing compensation or grade levels for EIC positions; allowing greater flexibility for CEP examiner travel and remote work options; and streamlining aspects of the CEP. RMS headquarters indicated that it had taken actions to address resource shortages, including developing deputy EIC positions to assist dedicated EICs, exploring the use of corporate expert-level positions for more complicated institutions, and eliminating the requirement for dedicated EICs to sign a five-year contract to serve in the EIC role for the same institution. The FDIC also reached a new compensation agreement in 2022 that increased employee pay and bonus incentives. While these actions are positive, more work is needed. Examination resource shortages, particularly in the New York region, are a mission-critical risk that will require a sustained whole-of-agency response.

Conclusion and Matters for Further Study

The weekend of March 10, 2023, was unprecedented. The speed with which depositors withdrew funds from SBNY and SVB was unexpected and surprised the regulators and the banking industry. The coincidence of these two failures and their unprecedented speed may lead to changes in regulation and supervision and reevaluating liquidity risk management. The goal of bank supervision is to promote safety and soundness and financial stability, not to prevent bank failures. Maintaining safety and soundness requires effective challenge from the regulators and receptivity and responsiveness from the banks. In the case of SBNY, the bank could have been more measured in its growth, implemented appropriate risk management practices, and been more responsive to the FDIC's supervisory concerns, and the FDIC could have been more forward-looking and forceful in its supervision.

NYRO management is responsible for ensuring that banks in the region are adequately supervised. While resource shortages were a significant factor in the supervision of SBNY, NYRO management is ultimately responsible for prioritizing and risk-focusing the use of scarce resources, ensuring examination activities are completed and communicated timely, ensuring that ratings assigned are forward-looking and reflect management weaknesses, and escalating supervisory actions when bank management is not responsive.

RMS headquarters is responsible for ensuring that the regions have sufficient examination resources with the necessary skillsets and experience to effectively supervise their portfolio of institutions. That responsibility includes developing strategies and incentives to attract and retain employees to fill LFI positions and working with other FDIC groups such as the Legal Division and the Division of Administration to pursue creative solutions for meeting workforce needs, including potentially reconsidering duty station requirements and remote work options. RMS headquarters is also responsible for addressing regional office resource needs; making prioritization decisions across the regional offices and reallocating examination resources based on a nationwide view of risk; and ensuring examination programs, such as the CEP, are effective and achieve their intended objective.

Our report includes matters for further study related to examination guidance, processes, and resources.

Introduction

On March 12, 2023, the NYSDFS closed SBNY and appointed the FDIC as receiver of the bank. SBNY was a full-service, commercial bank founded in 2001. As of December 31, 2022, SBNY had total deposits of $88.6 billion and total assets of $110.4 billion. SBNY was the 29th largest bank in the country, and its failure constituted the third largest bank failure in United States history. As of March 19, 2023, the FDIC estimated the cost of SBNY's failure to the DIF to be approximately $2.5 billion. The exact cost will be determined when the FDIC terminates the receivership.

In late March 2023, FDIC Chairman Martin J. Gruenberg commissioned the FDIC's Chief Risk Officer to conduct an internal review of the agency's supervision of SBNY and produce a report to the FDIC Board of Directors for release to the public by May 1, 2023. The Chief Risk Officer assembled a team independent of the FDIC's RMS to perform the work. The resulting internal review report provides information about the cause of SBNY's failure and evaluates the FDIC's supervision of SBNY from 2017 through SBNY's failure on March 12, 2023.

Appendix 1 contains details on our objectives, scope, and methodology. Appendices 2 thorough 5 provide detailed information about the FDIC's supervision of SBNY. Appendix 6 contains a list of acronyms.

Background

SBNY was a state nonmember commercial bank headquartered in New York, New York. SBNY had 40 financial centers (branches) located in the New York metropolitan area, Connecticut, California, North Carolina, and Nevada. The bank was publicly traded, had no holding company or principal shareholders, and had well-diversified ownership. Table 1 presents selected SBNY financial information.

Table 1: SBNY Financial Information (amounts in billions).

	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Total Assets	$43.1	$47.4	$50.6	$73.9	$118.4	$110.4
Total Cash, Interest-Bearing Bank Balances	$0.5	$0.4	$0.9	$12.4	$29.8	$6.1
Total Loans	$33.0	$36.9	$39.4	$49.2	$65.2	$74.9
Total Deposits	$33.4	$36.4	$40.4	$63.3	$106.2	$88.6
Digital Asset Deposits	n/a	n/a	$1.7	$9.0	$28.7	$17.8
Uninsured Deposits	$27.3	$29.9	$33.3	$55.9	$97.6	$79.5
• Percentage of Total Assets	63%	63%	66%	76%	82%	72%
• Percentage of Total Deposits	82%	82%	82%	88%	92%	90%

Source: SBNY Supervisory History, NYRO Lessons Learned review, and SBNY Call Reports.

SBNY began operations in 2001 as a *de novo* bank. SBNY's main lines of business were commercial real estate (CRE) and commercial and industrial (C&I) lending, which were principally funded through uninsured deposits gathered from mid-sized commercial companies. Starting in 2018, SBNY began to expand its business model by launching other lending and deposit gathering initiatives, including a Fund Banking Division dedicated to providing financing and banking services to the private equity industry; a Digital Assets Banking Group to collect cash deposits and maintain operating accounts for various digital asset-related businesses; and Signet, a blockchain-based digital payment platform for SBNY customers.

SBNY experienced tremendous deposit growth, primarily in large uninsured deposits, during 2020 and 2021, resulting in the bank's size more than doubling. During this time, SBNY's digital assets deposits increased substantially. In 2022, as interest rates began to rise and deposits began to contract due to volatility in the digital assets market, the bank decided to reduce its digital asset-related deposits. SBNY experienced $17.6 billion in deposit outflow in 2022, mostly in the fourth quarter, with digital asset-related deposits representing 62 percent of the 2022 outflow.

Causes of Failure and Material Loss

The primary cause of SBNY's failure was illiquidity precipitated by contagion effects in the wake of the announced self-liquidation of Silvergate and the failure of SVB, after both experienced deposit runs. However, the root cause of SBNY's failure was poor management. SBNY board and management pursued rapid, unrestrained growth without adequate risk management practices; funded growth through an overreliance on uninsured deposits without implementing fundamental liquidity risk management practices; and failed to understand the risk of its association with the crypto industry. SBNY management was also not always responsive in addressing FDIC SRs.

Rapid Growth without Commensurate Risk Management Practices

SBNY board and management pursued a strategy of rapid growth, with total assets increasing by 175 percent from the end of 2017 ($43.1 billion) to the end of 2021 ($118.4 billion), before declining to $110.4 billion at the end of 2022. In April 2023, the U.S. Government Accountability Office (GAO) reported that from 2019 through 2021, SBNY grew significantly faster than its group of peer banks. Specifically, SBNY grew by 134 percent while peer banks grew by 33 percent.[3] GAO noted that rapid growth can be an indicator of risk in a bank's business and that, in these cases, regulators are concerned with whether a bank's risk management practices can maintain pace with rapid growth.

SBNY's growth model was based on attracting experienced bankers and forming them into cohesive, Private Client Groups (PCGs). The PCG became the sole point of contact serving SBNY's clients. FDIC ROEs indicated SBNY's PCG model had proven to be successful over the years in expanding the bank's client base. The 2021 ROE reported that SBNY had 125 PCGs.

SBNY's rapid growth and shift in strategy resulted in a bank whose profile changed significantly over a short period of time. SBNY grew from $12 billion to $43 billion in assets from 2010 through 2017, with loans representing 77 percent of total assets, and it had a significant CRE concentration representing 593 percent of Tier 1 capital and the allowance for credit loss. In 2018, the bank began to alter its business model, in part to diversify away from its highly concentrated CRE loan portfolio, by launching other lending and deposit gathering initiatives.

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[3] *Bank Regulation, Preliminary Review of Agency Actions Related to March 2023 Bank Failures*, April 2023, GAO-23-106736. The peer group included 19 banking institutions with reported deposit balances and total assets between $100 and $250 million each at year-end 2022.

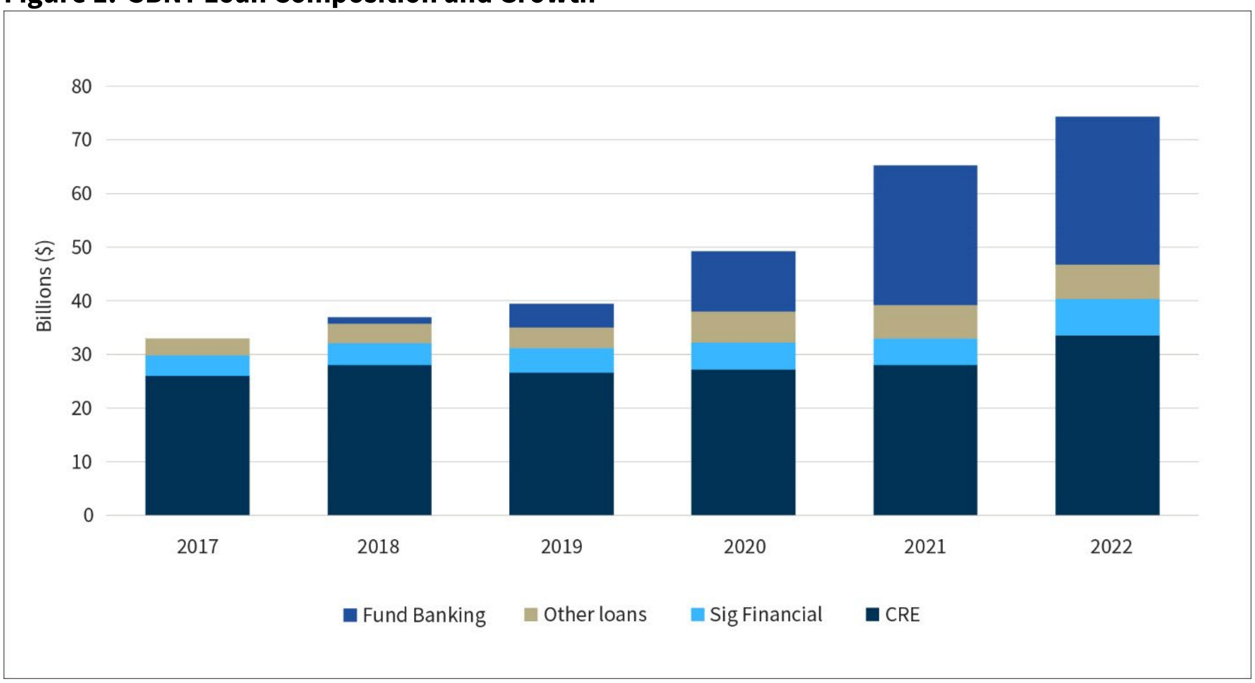
- In 2018, SBNY established a Digital Assets Banking group to collect cash deposits and maintain operating accounts for various digital asset-related businesses.

- In 2018, SBNY expanded its operations to the west coast, by opening a private client banking office in San Francisco, and launched a Fund Banking Group dedicated to providing financing and banking services to the private equity industry.

- In 2019, SBNY formed a Venture Banking Division to serve venture capital firms, established a mortgage servicing banking initiative to provide treasury management products and services to residential and commercial mortgage servicers, and launched Signet, a new blockchain-based internal digital payment platform for SBNY customers. These diversification initiatives had a significant impact on the profile of the bank, especially when combined with rapid asset growth being driven by the establishment of new PCGs.

SBNY's loans consisted of a CRE portfolio, primarily multi-family, office, and retail properties, and a C&I portfolio, comprised of Signature Financial, a wholly-owned subsidiary, and Signature Bank C&I portfolio (SB). The SB portfolio included the Fund Banking Group and other C&I lending. Over the period of our review, the Fund Banking Group accounted for the preponderance of SBNY's loan growth as shown in Figure 1.

Figure 1: SBNY Loan Composition and Growth



Source: Roll-up ROEs and targeted review Supervisory Letters.

The Fund Banking Group mainly provided capital call facilities, basically revolving credit lines to private equity firm general partners, who were the borrowing entities. In 2023, examiners noted that outstanding Fund Banking exposure had grown from \$4 billion at the beginning of 2020 to \$31 billion as of June 30, 2022, while committed exposure had increased to \$53 billion.

Management's Responsiveness to Supervision Findings

SBNY management was sometimes slow to respond to FDIC's supervisory concerns and did not prioritize appropriate risk management practices and internal controls. Management was described by FDIC supervisors as reactive, rather than proactive, in addressing bank risks and supervisory concerns. SBNY management's primary focus on growth, deposits, and profits took priority over the responsibility to ensure sound risk management and responsiveness to SRs. NYRO personnel indicated that SBNY executives were sometimes disengaged from the examination process and were generally dismissive of examination findings. When SBNY did take action to address examination findings, SBNY's actions were more "check-the-box" or done to assuage the examiners, versus management understanding and appreciating the importance of underlying findings or control weaknesses.

SBNY's responsiveness to SRs was mixed. In many instances, the FDIC documented and discussed repeat findings or SRs and MRBAs across multiple examination cycles, particularly related to liquidity risk management, BSA/AML, and MRM, without management effectively addressing the underlying supervisory concern. SBNY management failed to implement sufficient issues tracking processes that led to untimely remediation of numerous recommendations, findings, and deficiencies.

As discussed in greater detail below, SBNY was subject to several repeat criticisms, which reflected management's and the board's slow response to supervisory issues. For example, since the 2019 examination cycle, SBNY's management and board were aware that the bank's fund management practices needed improvement. SBNY's practices were not commensurate with the institution's complexity, risk profile, and scope of operations due to weaknesses with liquidity contingency planning, liquidity stress testing, and internal controls. Yet, the same criticisms were levied in 2020, 2021, and 2022, as the bank more than doubled in size and its risk profile increased. Despite repeated criticisms from FDIC supervisors, SBNY never adequately addressed the liquidity risk management concerns. These weaknesses figured prominently into the bank's failure.

SBNY's management and board reaction to the bank's liquidity risk profile in 2018 provides one example of SBNY's failure to be proactive. SBNY's 2018 risk appetite statement indicated the board had a "low" risk appetite as it related to liquidity. However, examiners identified several ongoing breaches in board-approved risk metrics. In one case in 2021, SBNY breached a 10 percent key risk indicator for digital assets-related deposit growth. Instead of curbing growth, SBNY increased the limit to 35 percent of total assets. The board should have ensured that SBNY was in compliance with its liquidity risk appetite and risk tolerance, and to the extent noncompliance was noted or identified, the board should have ensured appropriate actions were taken to return SBNY to the approved risk appetite. In addition, the board should have ensured other actions were taken to control and appropriately manage and monitor SBNY's increasing liquidity risks.

SBNY also implemented weak corporate governance practices. Examiners noted several examples where management made decisions without regard for having proper governance standards in place. The bank's organizational structure lacked clear decision-making processes, transparency as to who made decisions, and documentation as to approval and escalation protocols. Key decisions were often made by individuals or small informal groups of executive officers, without always following prescribed processes. Various committee charters did not provide for appropriate accountability, or allowed for concentrated authority without adequate safeguards.

Overreliance on Uninsured Deposits and Liquidity Risk Management

SBNY's primary source of growth was through uninsured deposits gathered from mid-sized companies. Uninsured deposits can be an unstable source of funding for banks because customers with uninsured deposits may be more likely to withdraw their funds during times of financial market stress. SBNY maintained substantial on-balance sheet liquidity through 2021 as deposits were growing, but experienced sharp deposit outflows in 2022 and made lending decisions that materially reduced the bank's liquidity.

Overreliance on Uninsured Deposits

Uninsured deposits are considered higher risk as they are more prone to rapid runoff during reputational or financial stress than insured deposits. SBNY's uninsured deposits ranged from 63 percent to 82 percent of total assets during our period of review. In an April 2023 report, GAO noted that the median uninsured deposits to total assets percentage for a group of SBNY's peer banks ranged from 31 to 41 percent during a similar time period.[4] SBNY's overreliance on this funding source was the primary driver of the bank's elevated liquidity risk profile. However, SBNY did not sufficiently establish policies and controls to address this key risk. Establishing a limit on the allowable level of uninsured deposits was not considered a viable solution, as management's strategy was based on the generation of large commercial deposits. In fact, SBNY targeted potential clients for PCGs based on the clients' ability and willingness to place large deposits with the bank.

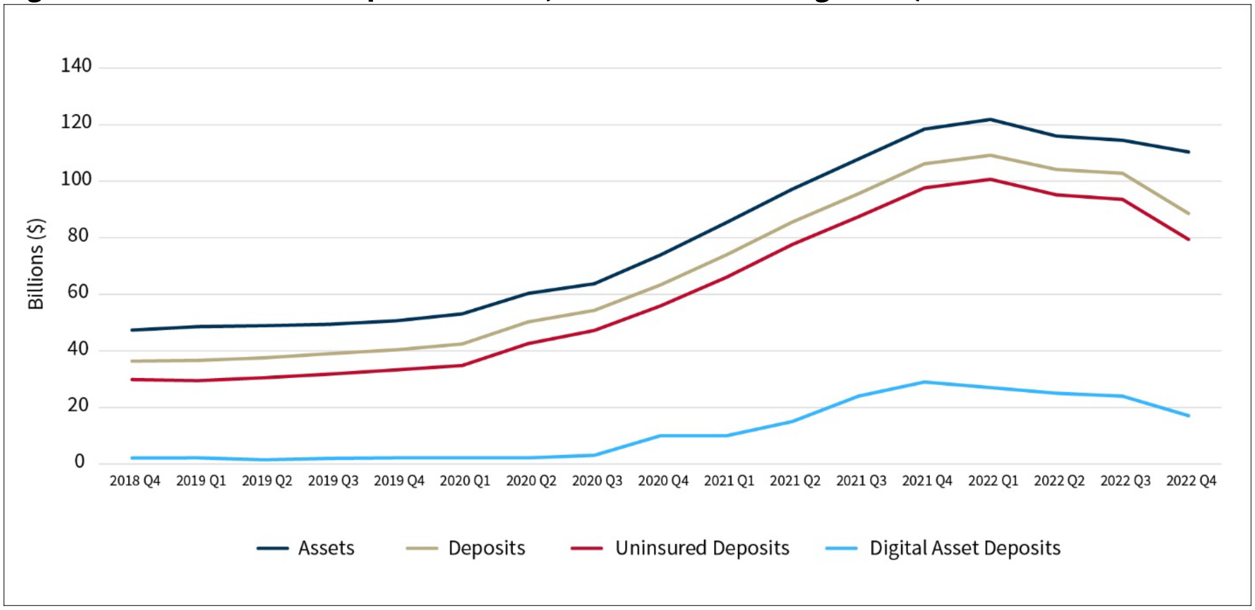
Notwithstanding the inherent riskiness of the bank's funding structure, management expressed its belief that the deposit base was largely stable based on its client-centric business model. Large depositors typically also maintained their operating account and/or lending relationship with the bank and it was therefore assumed their deposits were "sticky"—that is, unlikely to move. However, SBNY never fully developed liquidity stress testing deposit assumptions or a deposit runoff framework to substantiate this assumption. SBNY management should have gathered applicable industry and bank-specific uninsured deposits data that could have been used to model the potential degree of uninsured deposit volatility during adverse liquidity events.

As noted above, SBNY experienced expansive growth in 2020 and 2021. As companies in new industries like crypto formed relationships with SBNY and various depositors were fleeing to the safety of U.S. depository bank accounts, SBNY reaped the benefits and grew assets by 46 percent and 60 percent year-over-year in 2020 and 2021, respectively. SBNY experienced deposit growth of $22.9 billion in 2020, a 57 percent increase. Growth in deposits in 2020 in particular was likely due, in large part, to pandemic-related economic stimulus programs.

Rapid deposit growth continued in 2021, with deposit growth of $42.9 billion representing a 68 percent increase. Deposit growth was primarily driven by large uninsured deposits gathered by the Digital Assets Group, as well as traditional commercial deposit gathering by PCGs. The Digital Assets Group experienced the largest influx of deposits in 2021 with a growth of $19.7 billion or a 219 percent increase, bringing digital asset-related deposits to a total of $28.7 billion, as shown in Figure 2.

[4] GAO-23-106736.

Figure 2: SBNY Asset and Deposit Growth (Year-end 2018 through 2022).



Source: SBNY quarterly Large Insured Depository Institution (LIDI) Reports.

Similar to SVB, SBNY had also developed a concentration of very large depositors. Approximately 60 clients held deposit account balances in excess of $250 million, representing about 40 percent of total deposits. Digital asset-related deposits alone represented 27 percent of total deposits at year-end 2021. Four separate depositors, each comprised greater than 2 percent of total assets, and together held 14 percent of total assets. Three of these depositors were digital asset-related clients.

Despite the significant volume of uninsured deposits and the concentration of deposits in a few key accounts, SBNY management did not acknowledge the risks this profile presented. When the FDIC raised concerns about the deposit concentrations, SBNY management did not heed the FDIC's concerns and responded that the close relationship that SBNY cultivated with these large depositor clients made them less likely to leave SBNY. When examiners presented a white paper about the risks of maintaining high levels of uninsured deposits as it related to the failures of Washington Mutual Bank and IndyMac Bank in 2008, SBNY management emphasized how different its bank's profile was from those two banks as they were failing. Rather than conceding how they were similar, particularly in relation to the risks the high level of uninsured deposits could pose to their institution, SBNY management stressed the strength of their client relationships. There was little acknowledgement on the part of SBNY management about how risky and potentially volatile it was to have such a large concentration of uninsured deposits, without sufficient funds management contingency plans, in case of unanticipated financial market stress.

Loss of Liquidity

Throughout the time period in which SBNY was experiencing rapid growth and more volatility in deposits, management never developed appropriate and sufficient funds management policies or an adequate contingency funding plan. From the early days of the pandemic, when growth was accelerating, management relied more on its increasingly liquid asset position, with greater volumes of cash and liquid investments held on its balance sheet, than on a well-developed and thoroughly tested funding contingency plan. Thus, in late 2022, when its liquidity position deteriorated in large part due to stress in the crypto industry, SBNY was not prepared for the shock of an uninsured deposit run.

As noted above, during most of the pandemic, SBNY maintained more liquid assets to offset the influx of newer, large uninsured deposits. For example, SBNY's liquid assets represented 44 percent of total assets as of year-end 2021, and SBNY had almost $30 billion in cash on hand. However, in 2022, the amount of deposits began to contract due to the combination of volatility in the digital assets marketplace and rising interest rates. As a result of these changes, the bank significantly reduced its cash position and became much more reliant on collateralized borrowings.

SBNY experienced deposit runoff from its larger deposits and started deploying more deposits to higher-earning, but less liquid, assets. Over the course of 2022, total deposits declined by $17.6 billion, cash and interest-bearing bank balances declined by nearly $24 billion, and loans and investments increased by almost $10 billion and $4 billion, respectively. SBNY's on-balance sheet liquidity position declined materially. By the end of 2022, on-balance sheet liquidity consisted of $6.1 billion in cash and cash equivalents and approximately $24 billion in U.S. Treasury and Agency securities, representing 34 percent of total deposits, while uninsured deposits represented 90 percent of total deposits.

As mentioned earlier, during 2021 and 2022, SBNY increased lending in the form of capital call/subscription loans. These loans further reduced SBNY's liquidity. Capital call loans provided short-term C&I funding on a revolving basis to bridge the time between when an investment is made by an obligor or fund and when capital contributions are received from investors to finance the investment. A Capital Call Facility typically includes a General Partner which oversees the investment strategy and Limited Partners. The Limited Partners provided substantially all of the capital and typically consisted of qualified institutional investors such as insurance companies, endowment funds, foundations, banks, retirement/pension funds, family investments, and qualified high net worth individuals.

SBNY intended to pledge these loans to the Federal Reserve Bank of New York (FRB-NY) as collateral for Discount Window lending. However, FRB-NY would not accept the loans as collateral because they were not eligible as many of them had foreign limited partners. SBNY pursued efforts to pledge these loans for months, hiring two law firms to make the case for FRB-NY to accept the loans. During the weekend SBNY failed, management again tried, unsuccessfully, to pledge this portfolio to FRB-NY. SBNY also unsuccessfully tried to identify alternate entities that would accept the portfolio as collateral for a borrowing line. Even though SBNY management knew they did not have a formally-confirmed avenue to obtain liquidity from this portfolio, they continued to try to include these loans in collateral calculations just hours before the institution failed.

In February 2023, examiners questioned SBNY's regulatory reporting of pledged securities, which required SBNY to refile its year-end 2022 Call Report with a multi-billion upward adjustment to pledged securities. Prior to and during the weekend of SBNY's failure, examiners informed SBNY that pledged securities were still misstated on the bank's liquidity monitoring reports, because management continued to under-report pledged securities and overstate on-balance sheet liquidity on information provided to examiners. This issue persisted until the day SBNY failed, when management finally produced an accurate report of unpledged securities.

Reputation Risk and Contagion from Crypto Industry Turmoil

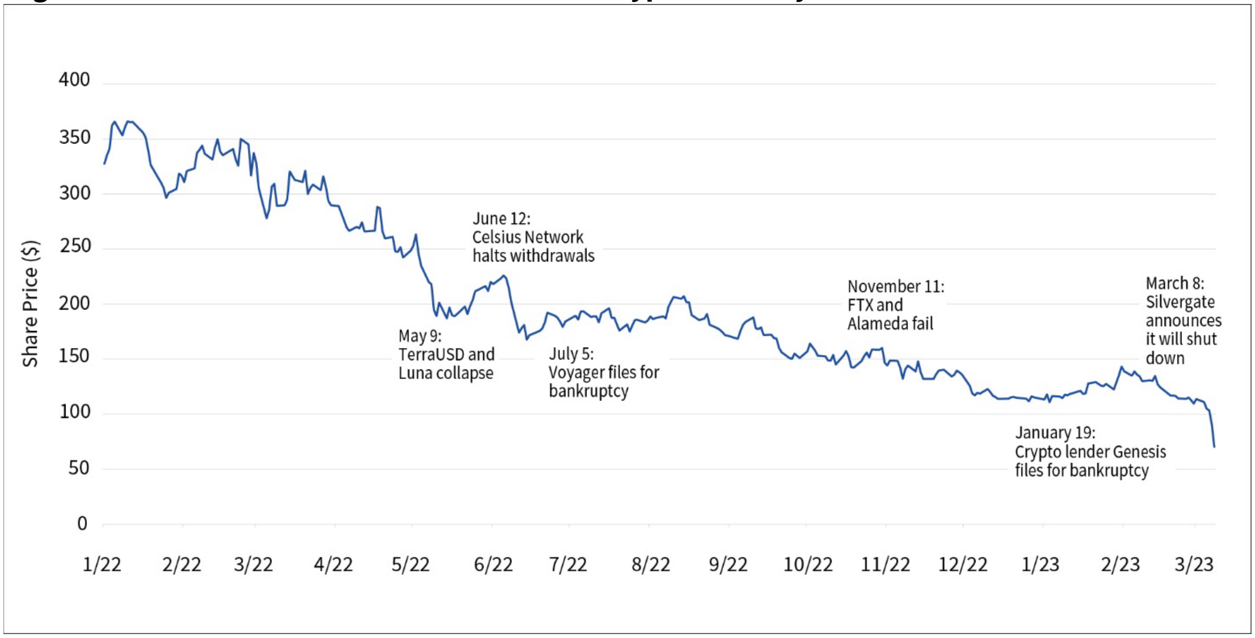
SBNY's board and management employed a strategy of rapid growth and expansion into the digital asset markets. The strategy exposed SBNY to greater susceptibility to liquidity, reputation, and regulatory risk due to the uncertainty and volatility of the digital asset space. The growth fueled by its pursuit of digital marketplace players exposed SBNY to bank runs and contagion, particularly in regards to crypto-related entities such as FTX, Alameda, and Silvergate. Pursuit of this strategy also increased the volatility and susceptibility of SBNY's more traditional depositor sources to event shocks and depositor runs. Management was not sufficiently prepared to ameliorate the risks posed by its concentration of deposits and lending relationships in the digital assets marketplace and seemed unaware of the potential damage it could inflict on its more traditional depositor customers.

The Digital Assets Group was closely aligned with a new blockchain-based internal digital payment platform called Signet, which SBNY developed with blockchain developer Tassat in 2018 and officially launched in January 2019. Touted as the first to market for an FDIC-insured bank, Signet enabled SBNY clients to settle USD payments globally 24 hours a day/7 days a week/365 days a year within the bank. The platform operated in-house and allowed bank customers to send payments in real time to fellow SBNY customers. Because all parties to the transactions had to be customers of SBNY, Signet created an incentive for existing bank customers to recruit their existing business relationships to become new SBNY customers in order to use the Signet technology. Although the Signet platform was separate and distinct from the Digital Assets Group, the group shared the goals of furthering the adoption of blockchain technology within the bank.

SBNY's significant client concentration of digital asset companies put it in a precarious position when the "crypto winter" hit in 2022. News articles scrutinized SBNY's involvement in the industry. SBNY experienced depositor run-off from both crypto customers as well as traditional depositors. However, management did not acknowledge that its exposure to the crypto industry might entice other customers to pull or reduce their own deposits. Two cryptocurrencies collapsed in May 2022 (TerraUSD and Luna), and additional turbulence in the industry surfaced shortly thereafter. Most crypto companies and currencies had declined in value precipitously from their highs in November 2021, which led to digital asset company layoffs within the industry. Celsius Network halted withdrawals in June 2022, around the same time that Voyager Digital failed and filed for bankruptcy. Finally, in November 2022, both FTX and its related hedge fund, Alameda Research, failed.

Due to its reputation as a banker to many in the crypto industry, SBNY's stock price closely tracked these tumultuous events in the crypto industry space and dropped significantly during 2022 as shown in Figure 3.

Figure 3: Correlation of SBNY's Stock Price to Crypto-Industry Events



Source: S&P Capital IQ and news articles.

By the time of FTX's failure, SBNY was well known as a bank that provided deposit services to crypto businesses. Bank executives had sought to cater to digital asset companies through a PCG dedicated to crypto companies and digital asset-related entities. Thus, there was increased scrutiny on SBNY with each successive failure and collapse in the crypto space. In an attempt to blunt the impact of these events on its stock price, SBNY issued a press release on November 15, 2022, to identify that it only had a deposit relationship with FTX and related companies, and that their deposits comprised a mere 0.1 percent of SBNY's overall deposits.

SBNY management countered a *Wall Street Journal* article in a January 23, 2023, press release, trying to correct the perception that SBNY was a "crypto lender" or that it invested in, held, or was a custodian of crypto assets. SBNY disclosed plans to limit its digital assets industry deposits to less than 20 percent of total deposits and run off between $8 billion and $12 billion of digital deposits over the succeeding several months, to decrease its exposure to less than 15 percent of total deposits. The Digital Assets Group deposit concentration was approximately 23.5 percent as of September 30, 2022. SBNY's attempt to reduce its exposure to the crypto space was market- and media-driven and was not prompted by FDIC supervisory activities.

In February 2023, SBNY was again subjected to media attention when a lawsuit was filed alleging it had facilitated FTX's commingling of accounts. SBNY was sued in the putative class-action lawsuit, in which the plaintiffs claimed that the bank had "actual knowledge of and substantially facilitated that now-infamous FTX fraud."

SBNY was also frequently associated with Silvergate in media reports, as these two banks were seen as most closely tied to the crypto industry. Following the March 1, 2023, announcement by Silvergate regarding the delay in filing its year-end 2022 financial statements and comments about its ability to continue as a going concern, SBNY once again experienced negative media attention, which raised questions about its liquidity position. The announcement on March 8, 2023, that Silvergate intended to self-liquidate placed additional pressure on SBNY's liquidity.

That same day, SVB reported that it was booking a $1.8 billion loss after selling investments to cover increasing amounts of deposit withdrawals. SVB's client withdrawals left its deposits lower than expected by the end of February, and the institution reported its intent to raise $2.25 billion in capital via a sale of common and preferred stock. Moody's downgraded SVB a few hours later. When SVB's stock crashed upon the market opening March 9, 2023, panic spread through texts and social media, and the institution's venture-capital firms exited SVB en masse. SVB's depositors attempted to withdraw $42 billion by the end of that day.

On March 9, 2023, a short seller who was reported to have predicted the fall of FTX and Silvergate, alleged SBNY was involved with FTX and Silvergate in a money laundering scheme using Signet, and claiming that 25 percent of SBNY's deposits were related to the cryptocurrency sector. The Twitter audio conversation involving this short seller was more widely reported in news reports on March 10, 2023.

Despite this flurry of negative press, SBNY's management did not seem sufficiently concerned about their own depositors fleeing. SBNY management continued to differentiate itself from SVB and Silvergate, despite its similar reliance on uninsured deposits like SVB and its similar deposit concentration in the digital asset market like Silvergate. SBNY thought it could maintain its customers' deposits by virtue of its relationship management through PCGs. In the intervening days, as the crisis deepened, SBNY management still did not believe it could fail, fervently maintaining "SBNY is not like WaMu or IndyMac." SBNY's President rejected examiner concerns about the stability of uninsured deposits as late as noon EST on March 10, 2023. Bank management failed to acknowledge the severity of the problem until a run started on SBNY in the afternoon.

On March 10, 2023, SBNY began to experience deposit withdrawals, with deposit outflows accelerating significantly after the announced closure of SVB. SBNY did not have sufficient cash to fulfill its large volume of deposit withdrawal requests, which equaled 20 percent of total deposits. SBNY was unprepared for and unable to enact contingency plans against the large deposit withdrawal requests. Outgoing wire requests significantly exceeded funds available in SBNY's Federal Reserve account. Due to its weak liquidity risk management practices, SBNY management had a difficult time initially ascertaining how much borrowing it needed to fund pending wires, had approached the Federal Home Loan Bank of New York (FHLB) too late in the day to draw against its line, and did not have sufficient collateral pledged at the Federal Reserve's Discount Window to cover pending wire requests. Bank officials worked with officials at the FHLB and the FRB-NY to resolve the bank's funding shortfall through actions of the FHLB to subordinate its interest in collateral to the FRB-NY and gain Discount Window access just before the Federal Reserve's wire room closed.

Over the weekend, liquidity risk at the bank continued to rise to a critical level as withdrawal requests mounted, along with uncertainties about the bank's ability to meet those requests and potentially others. The high level of uninsured deposits and the growing demand for withdrawals raised significant doubts about the bank's continued viability. Regulatory staff were coordinating with SBNY management throughout the weekend regarding the amount of deposit withdrawals that had been queuing up, as compared to on-balance sheet liquidity resources and then-existing borrowing capacity. On the afternoon of Sunday, March 12, 2023, maximum outgoing wires for the next day, Monday, March 13, 2023, had increased to $7.9 billion. Based on a best-case scenario, FDIC determined SBNY had $3 billion in liquidity available, or 4 percent of total deposits. On the same evening, the NYSDFS closed SBNY and appointed the FDIC as receiver—within 53 hours of SVB's failure.

While contagion from the liquidation of Silvergate and the failure of SVB were unprecedented and unfolded rapidly, SBNY management's lack of a well-documented and thoroughly tested liquidity contingency plan and its lack of preparedness for an unanticipated liquidity event were the root cause of the bank's failure. This lack of preparation prevented SBNY management from a timely understanding of the bank's true liquidity position in a time of stress and left it unable to meet very large withdrawal requests.

The FDIC's Supervision of Signature Bank

The FDIC issued Supervisory Letters and annual roll-up ROEs that repeatedly cited SBNY deficiencies with respect to liquidity risk management and other areas of supervisory concern. In retrospect, the FDIC could have acted sooner and more forcefully to compel the bank's management and its board to address these deficiencies more quickly and more thoroughly. The NYRO conducted a number of targeted reviews and devoted significant resources and effort to evaluating SBNY operations and risks. However, persistent, significant, resource challenges in the New York region contributed to timeliness and work quality issues and slowed earlier identification and reporting of SBNY weaknesses.

Supervisory Activities and CAMELS Ratings Assigned

Due to its size, complexity, and risk profile, the FDIC supervised SBNY under a CEP, which included elements such as supervisory planning, targeted reviews, ongoing monitoring, Large Insured Depository Institution (LIDI) reporting, and an annual roll-up ROE. The FDIC assigned a dedicated examination team to oversee the institution and conduct continuous examination activities. All examination activities were conducted jointly with the NYSDFS.

Financial institution regulators and examiners evaluate an institution's safety and soundness using the Uniform Financial Institutions Rating System (UFIRS). Under the UFIRS, RMS evaluates a bank's performance in six components represented by the CAMELS acronym: Capital adequacy, Asset quality, Management practices, Earnings performance, Liquidity position, and Sensitivity to market risk. Each component, and an overall composite score, is assigned a rating of "1" through "5", with "1" indicating the strongest performance and having the least degree of supervisory concern and "5" indicating the weakest performance and having the greatest degree of supervisory concern.

Between 2017 and SBNY's failure in March 2023, the FDIC and NYSDFS issued 36 targeted review Supervisory Letters and five roll-up ROEs. The ROEs addressed Safety and Soundness, Trust, BSA, Information Technology, Compliance, and Community Reinvestment Act (CRA) reviews and resulted in Safety and Soundness ratings shown in Table 2.

Table 2: SBNY Safety and Soundness Examination Ratings

Rating Type	2017	2018	2019	2020	2021
Composite Rating	2	2	2	2	2
Capital Component Rating	2	2	2	2	2
Asset Quality Component Rating	2	2	2	2	2
Management Component Rating	2	2	2	2	2
Earnings Component Rating	2	2	2	2	2
Liquidity Component Rating	2	2	3	3	3
Sensitivity to Market Risk Component Rating	2	2	2	2	2
Examination "as of" Date	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
ROE Issuance Date	7/31/18	7/31/19	10/02/20	11/19/21	12/13/22

Source: Annual roll-up ROEs.

On March 11, 2023, the day before SBNY failed, the NYRO notified the bank of an interim CAMELS rating downgrade, which resulted in a CAMELS/composite rating of 325252/5.

Detailed information about Supervisory Plans, targeted reviews, ongoing monitoring efforts, examination findings, and SRs appears in the Supervisory History section in Appendix 2.

Supervisory Recommendations and Enforcement Actions

The NYRO made a number of recommendations, including MRBAs, to address SBNY safety and soundness conditions and weaknesses. SBNY's responsiveness and effectiveness in addressing these recommendations was mixed. In some cases, FDIC cited repeat findings, and SRs, including MRBAs, remained outstanding for multiple examination cycles, particularly related to liquidity risk management, BSA/AML, and MRM.

The FDIC's *Large Bank Supervision Procedures* provide that targeted reviews can result in issuing one or more SRs or MRBAs. An SR refers to FDIC communications with a bank that are intended to inform the bank of the FDIC's views about changes needed in its practices, operations, or financial condition. A principal purpose of SRs is to communicate supervisory concerns to a bank so that it can make appropriate changes in its practices, operations, or financial condition and thereby avoid more formal remedies in the future, such as enforcement actions.

Most SRs are generally correctable in the normal course of business. However, SRs involving an issue or risk of significant importance that would typically require more effort to address than those correctable in the normal course need to be brought to the attention of the board and senior management through MRBA comments. Therefore, MRBAs are a subset of SRs.

In certain cases, examiners may determine that MRBAs are necessary, given the significant level of supervisory concern. Where possible and when applicable, examiners are encouraged to bring significant risk management deficiencies to the institution's board even if those deficiencies are not yet reflected in the institution's financial condition and performance ratios.

Examples of MRBAs that could warrant highlighting include:

- Emerging issues in which the board needs to be more proactive in establishing policy and risk management parameters;
- Policy weaknesses that, if left unaddressed, could increase the institution's risk profile or adversely affect the condition of the institution;
- Ineffective management;
- Repeat examination recommendations or regulatory, audit or risk management criticisms that have escalated in importance.

FDIC communicated a number of recommendations to SBNY through targeted review Supervisory Letters from 2017 through SBNY's failure on March 12, 2023. Table 3 presents SRs for those areas most frequently cited that remained open at the end of each examination cycle. Appendix 3 presents a more detailed presentation of all SRs cited by Supervisory Letter issued.

Table 3: Areas Most Frequently Cited with SRs Remaining Open by Examination Cycle

Targeted Review Scope	2017	2018	2019	2020	2021	2022*
Liquidity Risk Management	3	5	18	15	11	19*
Model Risk Management	10	10	10	9	12	
Information Technology	10	9	11	6	4	8
Anti-Money Laundering[5]	6	8	10	6	3	13*
Sensitivity to Market Risk	4	3	15	13	4	
Commercial Real Estate	12	19	1	1		
Other Areas	35	18	23	11	8	12*
Total	80	72	88	61	42	52*

Source: Roll-up ROEs.
* Proposed SRs from targeted review Supervisory Letters in process at the time of SBNY's failure.

The FDIC elevated certain supervisory recommendations to MRBAs. MRBAs related to liquidity risk management, AML, and MRM were outstanding for multiple examination cycles. Table 4 shows MRBAs outstanding at the end of each examination cycle during the period of our review.

[5] Anti-Money Laundering includes BSA/AML, Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT), and Office of Foreign Assets Control (OFAC) targeted reviews.

Table 4: Open MRBAs by Examination Cycle

Targeted Review Scope	2017	2018	2019	2020	2021	2022*
Commercial and Industrial Loan Portfolio	1	1				
Information Technology	1					
Model Risk Management		1	1	1		
Liquidity Risk Management		1	2	1	1	2*
Anti-Money Laundering	1	1	3	1		8*
Commercial Real Estate	2	3	1			
Corporate Governance						2
Fund Banking						1*
Total	5	7	7	3	1	13*

Source: Roll-up ROEs.
* Proposed MRBAs from targeted review Supervisory Letters in process at the time of SBNY's failure.

SBNY was not under enforcement action at the time of failure. In 2016, the FDIC pursued an informal enforcement action against SBNY related to BSA/AML internal control weaknesses. In June 2018, the FDIC concluded that SBNY's management had taken appropriate action to address those weaknesses and terminated that informal enforcement action. Due to weaknesses emerging from the 2022 targeted reviews, the FDIC was considering pursuing two new enforcement actions — a formal consent order related to AML/CFT and OFAC weaknesses and apparent violations and an enforcement action (the form of which had yet to be determined) related to longstanding funds management deficiencies as well as other risk management weaknesses. The March 11, 2023, Interim Ratings Downgrades Letter, issued by the FDIC, notified SBNY's board of directors that FDIC had decided to pursue a formal enforcement action given the precipitous decline in the bank's condition and management's inadequate response to recent events.

Evaluation of the Liquidity Component Rating

The FDIC downgraded SBNY's Liquidity component rating to "3" starting in 2019, reporting that funds management practices required improvement. The FDIC cited numerous liquidity-related SRs and two liquidity-related MRBAs during our period of review, including an MRBA related to Liquidity Contingency Planning that remained outstanding from 2019 through SBNY's failure. Many of the liquidity-related SRs were also outstanding for multiple examination cycles. Appendix 4 includes a detailed list of liquidity-related MRBAs and SRs from the 2019 liquidity target review and notes if the MRBA or SR was closed or open in future year examination cycles.

The *RMS Manual of Examination Policies* provides that, in evaluating the adequacy of a financial institution's liquidity position, consideration should be given to the current level and prospective sources of liquidity compared to funding needs, as well as to the adequacy of funds management practices relative to the institution's size, complexity, and risk profile. In general, funds management practices should ensure that an institution is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and to fulfill the legitimate banking needs of its community. Practices should reflect the ability of the institution to manage unplanned changes in funding sources, as well as react to changes in market conditions that affect the ability to liquidate assets quickly with minimal loss. In addition, funds management practices should ensure that liquidity is not maintained at a high cost or through undue reliance on funding sources that may not be available in times of financial stress or adverse changes in market conditions.

Evaluation factors that should be considered in assessing liquidity include:
- The adequacy of liquidity sources compared to present and future needs and the ability of the institution to meet liquidity needs without adversely affecting its operations or condition;
- The availability of assets readily convertible to cash without undue loss;
- Access to money markets and other sources of funding;
- The level of diversification of funding sources, both on- and off-balance sheet;
- The degree of reliance on short-term, volatile sources of funds, including borrowings and brokered deposits, to fund longer-term assets;
- The trend and stability of deposits;
- The ability to securitize and sell certain pools of assets; and
- The capability of management to properly identify, measure, monitor, and control the institution's liquidity position, including the effectiveness of funds management strategies, liquidity policies, management information systems, and contingency funding plans.

The FDIC assigned SBNY a Liquidity component rating of "3" starting in 2019 and reported that funds management practices required improvement. The *RMS Manual of Examination Policies* defines a "3" and "4" Liquidity Component rating as follows:

"3" Liquidity Component Rating Definition	"4" Liquidity Component Rating Definition
A rating of "3" indicates liquidity levels or funds management practices in need of improvement. Institutions rated "3" may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices.	A rating of "4" indicates deficient liquidity levels or inadequate funds management practices. Institutions rated "4" may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet liquidity needs.

The NYRO identified numerous, recurring liquidity risk management concerns and noted in multiple roll-up ROEs that liquidity risk management practices were not commensurate with the institution's complexity, risk profile, and scope of operations due to weaknesses with liquidity contingency planning, liquidity stress testing, and internal controls. These weaknesses prevented the bank from appropriately understanding the potential effects of adverse liquidity events and emergency cash flow needs. The board needed to strengthen funds management practices to better identify, measure, monitor, and control the bank's daily funding needs to cover both expected and unexpected deviations from normal operations, including its reliance on the uninsured deposit funding concentration.

The FDIC identified SBNY's large percentage of uninsured deposits as a potentially volatile funding concentration within every roll-up ROE since at least 2017. Beginning with the 2019 roll-up ROE, examiners began reporting concerns about the level of uninsured deposits concentrated in a small number of depositors, with very large deposits, including digital asset-related deposits. The 2021 roll-up ROE noted that the combination of rapid deposit growth, increasing funding concentrations, and unknown deposit stability had contributed to an increasing liquidity risk profile, which highlighted the urgent need for robust risk management practices that would enable the board and management to adequately control liquidity risk and limit potential adverse financial impacts on the bank.

A complicating factor in lowering the Liquidity rating further was SBNY's level of on-balance sheet liquidity. At the end of 2020, SBNY had $12.4 billion in cash and interest-bearing bank balances, and only a year later, at the end of 2021, had almost $29.8 billion in cash and interest-bearing bank balances, which was a 140 percent increase. NYRO management stated that despite the significant increase in on-balance sheet liquidity, liquidity risk management practices still needed improvement and supported a "3" rating. At that time, given the level of SBNY's on-balance sheet liquidity, it would have been difficult to support downgrading the Liquidity component rating to "4."

However, by year end 2022, SBNY's cash and interest-bearing bank balances level dropped to $6.1 billion. While it may have been difficult to support a liquidity component downgrade to "4," we concluded that the many liquidity risk management weaknesses would have supported downgrading the Management component rating sooner, as discussed further below. The NYRO recognized this as well in its lessons learned review.

Evaluation of the Management Component Rating

The FDIC rated the Management component "2" in each roll-up ROE, stating that SBNY's board and management performance remained satisfactory. ROEs through 2020 indicated the board and senior management appropriately identified, measured, monitored, and controlled the risks of the institution's activities. The 2021 roll-up ROE, issued in December 2022, was less positive and noted emerging weaknesses in corporate governance.

The *RMS Manual of Examination Policies* states that the quality of an institution's management, including its board and executive officers, is a critical factor in the successful operation of an institution. The board has overall responsibility and authority for formulating sound policies and objectives for the institution, for effectively supervising the institution's affairs, and for promoting the institution's welfare. A vital part of the directors' responsibilities is to set the strategic plan of the institution. Management must deal with ever-changing economic and market conditions, competition, innovation, and emerging and unforeseen risks. An effective strategic plan must be dynamic and updated as circumstances change. Executive officers, such as the President and Chief Executive Officer and the Chief Lending Officer, have primary responsibility for managing the day-to-day operations and affairs of the bank.

The capability and performance of management and the board of directors is rated based upon, but not limited to, an assessment of the following evaluation factors:

- The level and quality of oversight and support of all institution activities by the board of directors and management;
- The ability of the board of directors and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the initiation of new activities or products;
- The adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities;
- The accuracy, timeliness, and effectiveness of management information and risk monitoring systems appropriate for the institution's size, complexity, and risk profile;
- The adequacy of audits and internal controls to promote effective operations and reliable financial and regulatory reporting; safeguard assets; and ensure compliance with laws, regulations, and internal policies;

- Compliance with laws and regulations;
- Responsiveness to recommendations from auditors and supervisory authorities;
- Management depth and succession;
- The extent that the board of directors and management is affected by, or susceptible to, dominant influence or concentration of authority;
- Reasonableness of compensation policies and avoidance of self-dealing;
- Demonstrated willingness to serve the legitimate banking needs of the community; and
- The overall performance of the institution and its risk profile.

The FDIC assigned SBNY a Management component rating of "2" from 2017 through March 11, 2023, reporting that board and management performance remained satisfactory. The *RMS Manual of Examination Policies* defines a "2" and "3" Management Component rating as follows:

"2" Management Component Rating Definition	"3" Management Component Rating Definition
A rating of "2" indicates satisfactory management and board performance and risk management practices relative to the institution's size, complexity, and risk profile. Minor weaknesses may exist, but are not material to the safety and soundness of the institution and are being addressed. In general, significant risks and problems are effectively identified, measured, monitored, and controlled.	A rating of "3" indicates management and board performance that need improvement or risk management practices that are less than satisfactory given the nature of the institution's activities. The capabilities of management or the board of directors may be insufficient for the type, size, or condition of the institution. Problems and significant risks may be inadequately identified, measured, monitored, or controlled.

Although the NYRO rated board and management performance satisfactory in each roll-up ROE, examiners identified repeated concerns in the areas of liquidity risk management, BSA/AML, and MRM, that reflected negatively on management's performance. SRs and MRBAs in these areas remained outstanding for multiple examination cycles, without management effectively addressing the underlying supervisory concerns. SBNY's breaches of key risk indicators and board-defined growth limits reflected negatively on management as did SBNY management's failure to implement sufficient issues tracking processes, which according to examiners "led to an inadequate identification of issues throughout the organization, inconsistent tracking, and a lack of timely remediation of numerous recommendations, findings, and deficiencies that have far exceeded their expected remediation dates."[6]

In some instances, ROE narrative supporting the Management component rating appeared incongruent with the numerical ("2" Satisfactory) rating assigned. For example, from the 2019 roll-up ROE (which did downgrade the Liquidity rating):

> Board and management performance remain satisfactory. In general, the board and senior management appropriately identify, measure, monitor, and control the risks of the institution's activities…

[6] January 23, 2023, Corporate Governance Supervisory Letter referencing an SR outstanding since 2018 that was being escalated to an MRBA.

> However, during the cycle, significant weaknesses were identified as noted above within liquidity risk management. Weakness surrounding the management of liquidity under stress conditions and by implication the assurance that sufficient liquidity exists at any point in time were observed, leading to a downgrade of the liquidity component. In addition, concerns with BSA/AML high-risk account reviews continue to be evident due to both the number of outstanding reviews, and the quality of completed reviews.

And from the 2021 ROE:

> Board and management performance remain satisfactory. However, funds management practices continue to need improvement and emerging weaknesses in corporate governance are evident.
>
> During the 2021 examination cycle, management continued to remediate weaknesses noted in prior examination cycles yet several recommendations have remained open for a protracted period and expected remediation dates continue to be extended.
>
> Emerging risk may be present as during 2021 several [key risk indicator (KRI)] breaches occurred relating to asset and loan growth, and digital asset deposit levels, as well as unsupported KRI limits established for fund banking lending, an area that has experienced rapid material growth.

The *RMS Manual of Examination Policies* provides that examiners should employ a risk-focused forward-looking supervisory approach where control weaknesses or other risk management conditions or problems are assessed early, and when necessary, corrected, in order to prevent or mitigate serious problems to an institution's financial condition in the future. Other internal RMS guidance provides that:

> Effective supervision requires a continuous comprehensive approach that actively adapts the supervisory strategy to changes in facts and conditions. This is particularly important in supervising institutions undergoing significant change. Bank supervision requires analysis of not only current financial and operational conditions but also the potential impact of unmitigated risks and deficiencies. Early engagement with bank management and boards of directors is essential. Intervention to address increasing risks before financial metrics deteriorate requires effective communication and collaboration between field and regional staff, as well as state authorities.
>
> A key aspect of forward-looking supervision involves addressing management and control weaknesses early before financial decline occurs.

From year-end 2019 through 2021, SBNY grew from $50.6 billion to $118.4 billion in assets. By July 2021, the FDIC had completed a second Liquidity targeted review that repeated concerns related to liquidity contingency planning, liquidity stress tests, and internal controls over the liquidity risk management function. SBNY also had MRBA and SRs outstanding related to risk management practices in the areas of Liquidity, AML, MRM, Sensitivity to Market Risk, and Enterprise Risk Management that reflected poorly on management.

Given the fundamental and recurring liquidity control weaknesses, SBNY's unrestrained growth, management's slow response to address findings, and management deficiencies in other areas, we believe it would have been prudent to downgrade the Management component rating to "3" as early as the second half of 2021. Doing so would have been consistent with RMS' forward-looking supervision concept. Had the FDIC lowered the Management component rating, examiners would have likely lowered the Composite rating to "3" as well, which would have supported consideration of an enforcement action.[7]

LIDI Program Ratings

The LIDI Program is designed to provide a comprehensive analysis of the risk profiles of insured depository institutions with total assets of at least $10 billion. The timely and thorough analysis of these institutions helps the FDIC:

- Identify, monitor, and control the largest risks to the DIF.
- Support discretionary adjustments to deposit insurance premium assessments.
- Inform potential resolution-planning decisions and estimate potential losses.
- Identify emerging risks and trends in the banking industry.
- Document and communicate risks to senior FDIC management.

Each quarter, a regional Case Manager[8] prepares a report for the LIDI program, which includes LIDI analyses and ratings for their assigned institutions. LIDI ratings are designed to reflect a large bank's potential risk to the DIF and specifically incorporate assessments of risk of failure assuming stressed conditions (Vulnerability to Stress) and FDIC losses assuming failure (Loss Severity) using the rating scale in Table 5. The LIDI rating also includes an "Outlook" component (i.e., Positive, Stable, Negative) that projects where the LIDI Rating appears likely to be in 12 months based on currently available information.

[7] According to FDIC's examination module on informal actions, examiners should consider recommending formal enforcement action pursuant to section 8 of the FDI Act for institutions with a Composite "3" rating particularly if management appears unwilling to take appropriate corrective measures, and for all institutions with a Composite "4" or "5" rating.
[8] The regional office also assigns a Case Manager to be a bank's primary risk management contact.

Table 5: LIDI Program Ratings Definitions

Rating	Definition
A	Institutions pose a low risk to the DIF under stressed conditions. Such institutions have strong financial performance and represent the lowest level of risk of loss to the DIF.
B	Institutions pose a moderate risk to the DIF under stress conditions. Such institutions generally have satisfactory management and financial performance, are well diversified, and would not create a material loss to the DIF in the event of failure.
C	Institutions generally represent a heightened risk to the DIF under stress conditions. Such institutions exhibit one of the following: risk management weaknesses that warrant supervisory attention; vulnerable to a stress event due to their balance sheet composition (e.g. elevated loan or funding concentrations, marginal level of liquid assets, etc.); or cause a material loss to the DIF in the event of failure.
D	Institutions represent a higher risk to the DIF under stress conditions. Such institutions will exhibit more than one of the following: risk management or financial condition weaknesses that warrant supervisory attention; more vulnerable to a stress event due to their balance sheet composition (e.g. high loan or funding concentrations, low level of liquid assets, etc.); or cause a material loss to the DIF in the event of failure.
E	Institutions are very high-risk institutions in troubled condition. Such institutions will have a very weak financial condition and a high degree of performance variability. Further, these institutions exhibit significant uncertainty regarding their ongoing viability or a pronounced risk of loss to the DIF.

Source: *LIDI Report Instructions*.

Case Managers prepared quarterly LIDI reports, as required, for SBNY. From 2018 through 2021, Case Managers assigned a "C" rating with a stable outlook, indicating that SBNY represented a heightened risk to the DIF under stress conditions. The Case Manager lowered the Outlook to "negative" in 2022. A Large Bank Supervision (LBS) analyst recommended downgrading SBNY's LIDI rating to a "D" beginning in the second quarter of 2022, but the NYRO did not agree with this change. The NYRO downgraded SBNY's third quarter 2022 LIDI rating to "D" stable. The NYRO downgraded the LIDI rating due to SBNY's elevated asset stress reflecting the credit and exposures to industries vulnerable to the impacts of the uncertain economic conditions and declining capital levels due primarily to significant asset growth. In addition, vulnerability to funding stress was elevated due to rapid growth of potentially volatile large uninsured deposits including a large volume of new digital asset deposits; combined with funds management practices needing improvement. Table 6 presents the LIDI ratings assigned to SBNY.

Table 6: SBNY LIDI Ratings and Ratings Outlook from 2017 through Third Quarter 2022

Quarter and Year	LIDI Rating and Outlook
1Q – 4Q 2017	C Negative
1Q – 4Q 2018	C Stable
1Q – 4Q 2019	C Stable
1Q – 4Q 2020	C Stable
1Q – 4Q 2021	C Stable
1Q – 2Q 2022	C Negative
3Q 2022*	D Stable

Source: SBNY LIDIs.
* The third quarter 2022 LIDI report was the last LIDI report finalized before SBNY failed.

The LBS' *LIDI Report Instructions* notes that a bank's LIDI rating will not necessarily 'align' with the UFIRS Composite rating. We asked RMS to help us reconcile SBNY's LIDI "C" rating, indicating SBNY represented a heightened risk to the DIF under stress conditions, against SBNY's UFIRS composite "2" rating, indicating the overall condition of the bank was satisfactory. A senior RMS official explained that the LIDI program's Vulnerability to Stress assessments go beyond current condition and metrics, particularly in benign economic periods, and reflect inherent risks such as rapid growth, funding concentrations, asset concentrations, and identified risk management weaknesses. Loss Severity assessments are independent of bank's risk of failure and primarily reflect a bank's asset mix and funding profile. Thus, a bank's LIDI rating will not necessarily align with the UFIRS Composite rating.

Continuous Examination Process Implementation

The FDIC supervised SBNY under a CEP that included elements such as supervisory planning, targeted reviews, ongoing monitoring, LIDI reporting, and an annual roll-up ROE. The FDIC assigned a dedicated examination team that operated onsite at the bank and included examiners from NYSDFS.[9]

The FDIC's *Large Bank Supervision Procedures* provides guidance for conducting CEP activities. Under the CEP, the dedicated examination team is led by a dedicated or designated EIC. For each CEP institution, the size and composition of the dedicated examination team is based on the size, complexity, and risk profile of the bank. A field office supervisor is responsible for staffing the team and may assign additional resources or specialists as needed. The regional office also assigns a Case Manager to be a bank's primary risk management contact. The field office supervisor and Case Manager report to an Assistant Regional Director (ARD) who has responsibility for a portfolio of assigned banks. In addition, the LBS Branch in headquarters provides nationwide oversight and quality control of significant examination activities at institutions in the CEP. Table 7 presents CEP roles and responsibilities.

[9] In response to the pandemic, examiners performed their work offsite from March 2020 until September 2022.

Table 7: CEP Roles and Responsibilities

Dedicated Team	Case Manager	ARD	LBS
• Prepares the annual Supervisory Plan. • Prepares scope memos, entry letters, information request lists, exit meeting agendas, examiner conclusions memos, and supervisory letters for targeted reviews. • Conducts ongoing monitoring activities and prepares ongoing monitoring reports. • Maintains SR logs. • Prepares the ROE. • Provides periodic updates to regional and headquarters management on risk trends and other matters related to the institution. • Meets with various members of LFI management on a recurring basis.	• Works with dedicated team in directing supervisory efforts. • Participates in periodic meetings with dedicated team and LFI management. • Reviews Supervisory Plan and shares plan with the appropriate Federal and State Agencies. • Reviews significant deviations/changes to scope memos. • Reviews SR logs and ongoing monitoring reports. • Prepares LIDI reports. • Reviews and processes Supervisory Letters and ROEs. • Communicates significant events. • Schedules quarterly meetings with LBS and interagency staff. • Maintains internal tracking and documentation systems.	• Reviews and approves the Supervisory Plan. • Approves significant deviations from the Plan throughout the examination cycle. • Reviews and approves LIDI reports. • Signs Supervisory Letters and ROEs.	• Provides feedback and recommendations on draft LIDIs, ROEs, and Supervisory Plans. • Provides quarterly LIDI analysis, quarterly banking results, horizontal reviews of emerging risk, and other ongoing analysis. • Analyzes and reports SR trends across institutions.

Source: *Large Bank Supervision Procedures*, updated January 2018.

Generally, the Dedicated Team, Case Manager, and NYRO management completed CEP planning and examination activity deliverables. As shown in Table 8, we confirmed to what extent planned targeted reviews were performed and CEP deliverables were completed.

Table 8: Completed SBNY CEP Deliverables

CEP Deliverable	2017	2018	2019	2020[a]	2021[a]	2022	2023
Supervisory Plan	Y	Y	Y	Y	Y	Y	Y
Targeted Reviews							
• **Planned Reviews**	19	10	7	6	7[b]	7[c]	6
• **Completed Reviews**	13	6	6	4	7[d]	3[c]	0
• **Scope Memos**	12	6	6	4	7	5	0
• **Summary Conclusion Memos[e]**	10	5	6	4	5	5	0
• **Supervisory Letters**	13	6	6	4	5	2	0
Supervisory Recommendation Logs	0	0	0	0	0	1	1
Quarterly Ongoing Monitoring Reports	0	3	4	3	3	1	N/A
Quarterly LIDI Reports	4	4	4	4	4	3	N/A
Roll-up ROE	Y	Y	Y	Y	Y	N	N/A

[a] A Supervisory Plan was prepared for 2020. Due to the pandemic, a revised Supervisory Plan for the remainder of 2020 was included with the Supervisory Plan for 2021. The Plan was prepared for August 2020 through December 2021.
[b] Planned targeted reviews were referenced as priority reviews in the August 2020 through December 2021 Supervisory Plan.
[c] Planned and Completed Reviews in 2022 include a Compliance/CRA examination, which has some similar and some different documentation and reporting requirements than Safety and Soundness targeted reviews.
[d] The results of one targeted reviewed were reported as part of ongoing monitoring in a quarterly Supervisory Letter and the results of another targeted review were reported in the roll-up ROE.
[e] Summary Conclusion Memos include workprograms and InTREx (Information Technology Examination) modules.

We observed that certain CEP deliverables were not always completed or documented in accordance with the *Large Bank Supervision Procedures*. For example, a few targeted review results were not documented in summary conclusion memos, but instead were documented in examiner conclusion memos. In addition, a few documents appeared to be draft documents and some documents were not stored in the Regional Automated Document Distribution and Imaging system (RADD) as required by the *Large Bank Supervision Procedures*. As it relates to Ongoing Monitoring Reports, the Dedicated Team did not complete these Reports prior to the second quarter of 2018 as required by the *Large Bank Supervision Procedures*. In addition, starting in 2020, this internal reporting requirement was periodically waived due to competing priorities and staffing constraints. Lastly, it appears that until the fourth quarter of 2022, the Dedicated Team did not formally maintain a Supervisory Recommendation Log in accordance with the *Large Bank Supervision Procedures*.

Detailed information about Supervisory Plans, targeted reviews, ongoing monitoring efforts, examination findings, and SRs appears in the Supervisory History section in Appendix 2.

The FDIC's *Large Bank Supervision Procedures* provides guidance for conducting CEP activities and sets expectations for planning, examination activities, and communication.

Supervisory Planning

The *Large Bank Supervision Procedures* state that the initial step in the supervisory process is to develop an annual Supervisory Plan, which is an important tool in identifying and prioritizing risk and effectively allocating required resources. Supervisory Plans are prepared by the EIC and submitted to the Case Manager, reviewed and approved by the ARD, and submitted to the applicable LBS analyst for review and comment. The EIC coordinates with field or regional officials responsible for providing staff to ensure availability of examination resources. Effective pre-planning for targeted reviews should include the development of a comprehensive strategy to identify risk and assess the effectiveness of risk management controls. Each targeted review should be supported by a comprehensive Scope Memo.

We confirmed the Dedicated Team prepared comprehensive Supervisory Plans, which included planned staffing requirements needed to complete targeted reviews and ongoing monitoring activities, as determined by risk assessments of the bank.

Supervisory Plans also estimated the examination hours required to conduct the planned targeted reviews and ongoing monitoring. We obtained actual hours expended on SBNY examination activities and compared that information to Supervisory Plan estimates. With the exception of the 2018 examination cycle, actual examination hours were within about 7 percent of planned hours or exceeded the planned hour estimate as shown in Table 9.

Table 9: Planned and Actual Examination Hours

Examination Cycle	SBNY Assets (in billions)	Planned Hours	Actual Hours	Percentage of Planned Hours Actually Used
2017	$35.0b as of 3/31/16	11,972	11,128	93%
2018	$40.3b as of 3/31/17	13,559	10,531	78%
2019	$44.4b as of 3/31/18	11,749	13,234	113%
2020	$48.6b as of 3/31/19	11,194	13,967	125%
2021	$53.1b as of 3/31/20	13,288	12,945	97%
2022	$85.4b as of 3/31/21	15,250	15,763	103%

Source: Supervisory plans and field office staffing Information.

Over time, the planned hours increased in relation to SBNY's growth and FDIC authorized additional positions to the Dedicated Team.[10] While the NYRO was able to assign short-term resources to largely meet planned hour estimates, the Dedicated Team experienced significant turnover and vacancies and the team was supplemented by temporary staff, as discussed later in our report. An NYRO official told us that, as a result, some of the targeted reviews required more hours to complete than would have been needed by a more tenured team with greater membership stability.

Examination Activities

The *Large Bank Supervision Procedures* state that examination activities include targeted reviews and ongoing monitoring. Examination deliverables include the:

- Examiner Conclusion Memo prepared by each examiner after concluding examination work;
- Summary Conclusion Memo prepared by the lead examiner within 15 days of concluding examination work;
- Target Conclusion Letter or Supervisory Letter, prepared by the lead examiner after every targeted review and transmitted to the bank's CEO and board within 45 days of the exit meeting;
- Quarterly LIDI report prepared by the Case Manager, due 55 days after the end of each quarter;

[10] The SBNY Supervisory Plans included a metric, "planned hours per billion in assets," that provided perspective on the planned examination level of effort in relation to the size of the bank. We observed that this metric declined from 342 examiner hours per billion in assets in 2017 to 163 hours per billion in assets in 2022. An RMS official indicated the metric was more appropriate for community bank point-in-time examinations and that it was not as useful for CEP institutions with varied business lines and risk profiles.

- Ongoing Monitoring Report, which summarizes ongoing monitoring activities for the quarter and due within 45 days of the quarter end;
- Quarterly Supervisory Letters, an optional letter transmitted to the bank's CEO and board within 60 days of the end of the quarter;
- Supervisory Letters transmitted to the bank's CEO and board to communicate closure of SRs or results from ongoing monitoring activities; and
- Roll-up ROE, prepared annually and addresses Safety and Soundness, Trust, BSA, and Information Technology reviews. The ROE should generally be issued to the bank within 150 days of the examination "as of date."

As discussed earlier, the NYRO issued 36 targeted review Supervisory Letters and five annual roll-up ROEs during our period of review. Targeted reviews frequently addressed areas such as Information Technology, BSA/AML, MRM, and liquidity risk management.

We observed the Dedicated Team did not always complete all targeted reviews contemplated in annual Supervisory Plans. The EIC developed Supervisory Plans for each examination cycle that identified planned targeted reviews for the year. Dedicated examination teams are allowed to deviate from the Supervisory Plan during the year; however, any significant deviations to the Supervisory Plan should be approved by the ARD. Supervisory Plans from 2017 through 2021 contemplated 49 targeted reviews. In addition, three targeted reviews were completed, which were not included in the original Supervisory Plans. The NYRO issued 36 targeted review Supervisory Letters during this period and communicated the results of one targeted review through an ROE and one targeted review, as part of ongoing monitoring, through a quarterly Supervisory Letter. The NYRO canceled or postponed 14 targeted reviews during this period and LBS was unable to provide the NYRO documentation that a horizontal targeted review was completed during this period. In total, approximately 30 percent of the contemplated targeted reviews were canceled or postponed during this period. Table 10 presents the topics of the canceled or postponed targeted reviews.

Table 10: Canceled or Postponed Targeted Reviews

Completed Examination Cycle	Planned Reviews	Canceled or Postponed Targeted Reviews
2017	19	• Problem Loans, Collections, Troubled Debt Restructurings • Loan Risk Rating System • Operational Risk • Internal Routines and Controls, Accounting Procedures • Call Report Review/Schedule RC-O • Capital, Earnings, Financial Planning
2018	10[a]	• Data Governance • Credit Risk Management • Signature Financial (C&I Lending) • Signature Bank (C&I) Non Signature Financial
2019	7[b]	• CRE Portfolio Management / Concentration Risk Management • Model Risk Management
2020	6[b]	• Private Equity Lending • Model Risk Management • Current Expected Credit Loss
2021	7[c]	• None[d]

Source: SBNY Supervisory Plans and roll-up ROEs.
[a] A targeted review of SBNY's Dodd-Frank Act Company-Run Stress Test was not performed due to regulatory requirement changes and a targeted review of MRM was performed, which was not planned.
[b] An additional targeted review was completed in this examination cycle year, which was not included in the Supervisory Plan.
[c] Planned targeted reviews were referenced as priority reviews in the August 2020 through December 2021 Supervisory Plan.
[d] The results of one targeted reviewed were reported as part of ongoing monitoring in a quarterly Supervisory Letter and the results of another targeted review were reported in the roll-up ROE.

We observed that RADD did not contain approvals for all planned targeted reviews that were canceled or postponed. NYRO officials acknowledged that, generally, targeted reviews were canceled or postponed due to staffing shortages.

Communication of Supervisory Activities

The FDIC's *Large Bank Supervision Procedures* provides guidance for communication of supervisory activities and notes that external communication with bank management and the board must be clear and frequent to ensure a timely discussion of risks and remediation of supervisory issues. Each targeted review should include a pre-planning meeting, an entrance meeting, periodic update meetings, and a final exit meeting. If the review involves MRBA, a meeting with the board, or committee thereof, is appropriate. Generally, the EIC, with Regional Office support, as deemed necessary, should 1) conduct quarterly meetings with bank management to obtain status updates on bank performance, strategic initiatives, audit findings, and 2) generally conduct annual meetings to ensure the board, or an appropriate committee thereof, is apprised of the examination cycle findings and ratings and to communicate expectations and supervisory program priorities for the upcoming year. Findings from a targeted review or ongoing monitoring activities may also trigger the need to meet with the board before the end of the examination cycle.

The NYRO generally communicated the results of targeted reviews to bank management through exit meetings with bank management and through Supervisory Letters to the board and management.

The NYRO also transmitted written ROEs to SBNY's board and management. However, as discussed in the next section the communication of examination activity results to SBNY was not always timely.

Timeliness of Communication with SBNY Board and Management

FDIC's communication of examination results to SBNY's board and management often was not timely. Supervisory Letter issuance frequently exceeded elapsed-day benchmarks and roll-up ROE issuance exceeded the CEP median and, in some cases, the issuance delays were significant. While staffing shortages and work quality impacted timeliness, NYRO management's linear implementation of the CEP contributed to timeliness issues, and, in at least one case, resulted in current-year targeted review results being withheld until the prior year annual roll-up ROE was released.

As discussed earlier, the CEP approach consists of an annual cycle of targeted reviews that are communicated by Supervisory Letters during the year and summarized in an annual roll-up ROE that also communicates the CAMELS ratings. For SBNY, the annual cycle ended on December 31, the examination "as of date."

Targeted Review Supervisory Letter and ROE Timeliness

FDIC issued 36 targeted review Supervisory Letters communicating the results of targeted reviews from 2017 through SBNY's failure on March 12, 2023. We observed instances where it took an inordinate amount of time to complete targeted reviews and deliver review results to the bank. The dedicated examination team should generally complete and discuss the results of a targeted review with bank management within 50-60 days and issue a written Supervisory Letter 45 days later. Of the 36 targeted reviews for which Supervisory Letters were issued, 24 took 100 or more days to complete and discuss with bank management, 12 took 100 or more days to issue the Supervisory Letter after discussing the targeted review with bank management, and 17 took 250 or more days from the start of the review until the targeted review Supervisory Letter was issued, with one targeted review taking over 400 days to issue the Supervisory Letter. Table 11 shows those targeted reviews with elapsed days between the review start date and the exit meeting with management in excess of 200 or more days.

Table 11: Targeted Reviews with Elapsed Days in Excess of 200 or More Days

Targeted Review Topic	Examination Cycle	(A) Exam Start Date	(B) Exit Meeting Date	Elapsed Days Between A and B
Anti-Money Laundering	2017	09/18/17	05/22/18	246
Enterprise Risk Management		10/02/17	06/08/18	249
CRE Loan Portfolio		11/06/17	07/09/18	245
Model Risk Management	2018	07/02/18	02/13/19	226
CRE Concentration Risk Management		07/30/18	02/15/19	200
Anti-Money Laundering		09/17/18	04/26/19	221
Asset and Liability Management		10/22/18	05/22/19	212
Liquidity Risk Management	2019	10/21/19	06/16/20	239
Internal Audit	2020	10/06/20	09/03/21	332
Model Risk Management	2021	05/10/21	05/09/22	364
Liquidity Risk Management		11/08/21	06/07/22	211
Current Expected Credit Losses		11/08/21	06/21/22	225
Information Technology	2022	03/14/22	01/09/23	301

Source: Internal review team analysis of SBNY targeted review Supervisory Letters.

The FDIC issued five annual roll-up ROEs summarizing SBNY examination and ongoing monitoring activities. As shown in Table 12, the 2020 and 2021 ROEs far exceeded the CEP median at a time when SBNY's risk profile and liquidity position were significantly changing.

Table 12: Report of Examination Timeliness

ROE "as of date" (12/31/20XX)	SBNY ROE Issuance Date	Days from "as of date" to ROE Issuance Date		
		CEP Median	SBNY	Difference
2017 Roll-up ROE	7/31/18	171	212	+41
2018 Roll-up ROE	7/31/19	168	212	+44
2019 Roll-up ROE	10/2/20	168	276	+108
2020 Roll-up ROE	11/19/21	152	323	+171
2021 Roll-up ROE	12/13/22	167	347	+180

Source: Internal review team analysis of ROEs and transmittal letters.

Over time, delays in completing targeted reviews created a backlog of examination deliverables and situations where the examination team completed current year targeted reviews before the prior year annual roll-up ROE had been issued. In at least one case, NYRO management followed a linear implementation of the CEP and withheld written targeted review results until the prior year ROE could be issued. Because certain ROEs were not issued until 11 or 12 months after the examination "as of" date, written communication of supervisory concerns to SBNY was not timely.

Table 13 presents the 18 targeted review Supervisory Letters (18 of 36) that exceeded the 45-day benchmark for transmittal to the SBNY's CEO and board. The exit meeting dates marked with an asterisk indicate instances where the exit meeting date occurred before the prior year's roll-up ROE had been completed but the Supervisory Letter was not issued until after the ROE was issued. Other than the 2022 Corporate Governance and the Information Technology targeted reviews, NYRO officials stated that delays were generally due to quality of work issues and report products that had to be rewritten and that the NYRO did not withhold current year targeted review Supervisory Letters until prior year ROEs were issued.

Table 13: Supervisory Letters Issued More Than 45 Days after the Targeted Review Exit Meeting

Targeted Review Topic	Examination Cycle for Targeted Review	(A) Exit Meeting Date	(B) Supervisory Letter Date	Elapsed Days Between A and B
C&I Loan Portfolio	2017	3/22/17*	12/1/17	254
Information Technology		4/25/17*	12/15/17	234
Sales Practices and Incentive Compensation		5/25/17*	11/28/17	187
Model Risk Management		5/3/17*	12/1/17	212
Investment Portfolio		8/14/17*	12/1/17	109
Dodd-Frank Act Company-Run Stress Test		11/22/17	1/29/18	68
Asset and Liability Management		11/3/17	3/1/18	118
Internal Loan Review		2/28/18	6/1/18	93
Internal Audit		11/21/17	3/1/18	100
Signature Financial Portfolio		2/21/18	5/14/18	82
Information Technology	2018	2/20/18*	8/27/18	188
Information Technology	2019	4/17/19*	9/9/19	145
Anti-Money Laundering		1/29/20	5/4/20	96
Information Technology	2020	6/3/20*	11/4/20	154
Information Technology	2021	6/16/21*	2/3/22	232
Liquidity Risk Management		6/7/22	7/28/22	51
Current Expected Credit Losses		6/21/22	8/23/22	63
Corporate Governance	2022	5/19/22*	1/23/23	249

Source: Internal review team analysis of SBNY targeted review Supervisory Letters.
* Targeted Review exit meeting date occurred before the prior year ROE was issued.

Corporate Governance Targeted Review and 2021 Roll-up ROE: The NYRO conducted a Corporate Governance targeted review in March 2022. The NYRO supplemented the Dedicated Team with experienced resources for the review. The review team identified a number of concerning management weaknesses. The team discussed the results of the targeted review with SBNY bank management and several board members in May 2022. However, the NYRO did not issue the Corporate Governance Supervisory Letter until January 2023, more than eight months later. NYRO management delayed issuance of the Supervisory Letter because the prior-year roll-up ROE, completing the 2021 examination cycle, had not been issued. The NYRO issued the 2021 roll-up ROE in December 2022, almost 12 months after the 2021 examination financial "as of date." The relevant CEP median for ROE issuance during that year was about 5 months.

The 2021 roll-up ROE and January 2023 Corporate Governance Supervisory Letter, issued within about 40 days of each other, communicated different views of the sufficiency of SBNY management as presented below.

2021 Roll-Up ROE Transmittal Letter (dated December 13, 2022)	Corporate Governance Supervisory Letter (dated January 23, 2023)
The letter stated the overall condition of the bank remained satisfactory, but that: • Liquidity risk management practices continue to require improvement. • That board and senior management oversight is satisfactory, but noted that the bank had experienced material growth in the prior two years and had executed several new initiatives. • That it was imperative that the board and management ensure the corporate governance and risk management framework of the bank maintains pace with the significant growth and is in line with the current size, complexity, and risk profile of the bank. The ROE indicated that a review of Corporate Governance in relation to the bank's material asset growth would be completed during the 2022 examination cycle.	The letter was more critical of management. • Concluded that corporate governance over the operations, substantial growth, and management's overall organizational structure and decision-making processes needed improvement. • Stated the board's decision to allow a strategic position of rapid growth and concentrated expansion into digital asset markets had brought increased susceptibility to liquidity, reputation, and regulatory risks. • Noted several examples where management made decisions without regard for the proper governance standards in place. • Noted that it is critical that the board and senior management provide for the appropriate organizational framework, guidelines, and infrastructure to ensure safe and sound operations in consideration of the size, complexity, and rapid pace of change within the institution. • Communicated two MRBAs and four SRs.

Given the duration of time that had elapsed since the 2021 "as of" examination date (December 31, 2021) and the corporate governance weaknesses that the NYRO had identified after the "as of" date, the addition of a subsequent events section to the 2021 roll-up ROE, communicating concerns from the Corporate Governance targeted review, would have helped to deliver a more consistent assessment of SBNY board and management as of December 2022.

NYRO officials met with SBNY's board and management on February 15, 2023, to discuss the 2021 roll-up ROE. During the meeting, board members also raised questions about the January 2023 Corporate Governance Supervisory letter. Two board members expressed concern that the feedback received from SBNY senior management regarding findings from the Corporate Governance Targeted Review during the May 2022 exit meeting did not align with the severity in tone of the resulting Supervisory Letter. NYRO officials indicated the examination team clearly communicated their supervisory concerns during several closeout meetings with management and at the May 2022 exit meeting. SBNY board member comments emphasize the importance of timely written communication of examination results to the board.

Additionally, since the letter for this exam was issued in January 2023, management's responses to the new MRBAs were not due until March 9, 2023, almost 10 months after the targeted review findings were discussed with SBNY management. SBNY management requested additional time to respond, and the bank failed before the FDIC received management's response. NYRO officials noted that SBNY knew the nature of the findings from the May 2022 exit meeting and should have been working on corrective action. However, given SBNY management's historical slowness in addressing supervisory concerns, written findings and SRs were important.

A NYRO lessons learned review following SBNY's failure concluded there were opportunities for examiners to engage more with bank management and the board and provide clearer, timelier messages to SBNY executives regarding identified weaknesses. The review noted that SBNY management had been disengaged from the examination process and generally dismissive of FDIC findings. Adjustments to the meeting cadence with SBNY management during 2022 helped to surface additional weaknesses and challenged SBNY management disengagement. The review noted dedicated teams typically meet with a bank's board of directors once per year following the roll-up ROE; it further acknowledged more frequent meetings, possibly quarterly, may be warranted especially for areas involving continuing weaknesses. With respect to the February 2023 meeting with SBNY's board and management, the lessons learned review concluded the NYRO could have delivered a stronger message regarding repeat funds management weaknesses as well as preliminary findings from ongoing targeted reviews and trends of concern.

SBNY Staffing Challenges

The Dedicated Team experienced frequent vacancies and continuous turnover during our period of review (i.e., 2017 through March 2023). The Dedicated Team was authorized three positions in 2017, five positions from 2018 through 2021, seven positions in 2022, and nine for 2023, based on SBNY's rapid growth and increasing complexity and risk profile. NYRO staff stated the team had at least one vacancy 60 percent of the time and had 17 different staff assigned during this time period not including field territory resources that were temporarily assigned to cover gaps. Figure 4 shows Dedicated Team changes and vacancies by examination cycle.

Figure 4: Authorized and Filled Staffing Analysis for the Dedicated Team Assigned to SBNY

Authorized Staff	2017				2018				2019				2020				2021				2022				2023
1	EIC-1																				SE/EIC-2[c]			EIC-3[c]	
2	Staff 1										V	Staff 4[a]				Staff 8							Staff 11[a]		
3	V	V	Staff 2				V	V	V	V	V	Staff 5[a]	Staff 7[a]					V	Staff 9[a]			V	V	V	Staff 14
4					V	V	Staff 3																	Staff 12[a]	
5					V	V	V	V	V	V	V	Staff 6[b]												Staff 13	
6																					V	Staff 10			
7																					V	V	V	V	V
8																									V
9																									V

Source: Internal review team analysis of SBNY Supervisory Plans and staffing information.
While not always shown, vacancies sometimes occurred within a quarter.
V – Vacant position. The staff highlighted in gold were assigned to SBNY when another LFI changed to a national bank charter.
[a] Temporary appointment.
[b] Temporary appointment converted to permanent appointment.
[c] Assigned EIC role, after postings failed to identify qualified candidates.

In addition to the vacancies and staffing changes shown in the figure above:

- The staff highlighted in gold were added in late 2022 when another large bank in the New York territory (Large Bank B) merged and transitioned to a national bank charter, thus freeing up examination resources. NYRO officials indicated that it was unclear how the Dedicated Team would have been staffed if not for Large Bank B changing banking charters and the Office of the

Comptroller of the Currency assuming primary federal regulator supervision responsibilities. NYRO would have had to move resources from other teams and continue using an acting EIC.

- The EIC position is of critical importance. The NYRO had difficulty finding qualified staff to serve that role. During this period, LFI EICs were required to sign a five-year contract to serve as EIC for a large bank. The five-year contract for EIC-1 expired at the end of 2021. The NYRO advertised the EIC vacancy two separate times during late 2021 and early 2022 but identified no qualified applicants. The NYRO resorted to assigning a Supervisory Examiner (SE) who continued performing his SE duties while also serving as SBNY's EIC during 2022. In September 2022, the NYRO assigned an experienced Senior LFI Examiner to serve as SBNY's EIC, while the SE continued to work with the Dedicated Team to issue the 2021 roll-up ROE.
- Several times during this period, the NYRO advertised for multiple team vacancies and filled only one vacancy due to weak rosters or lack of interest. In several cases, the NYRO advertised positions as temporary positions with the opportunity to become permanent in order to attract qualified candidates. However, the temporary positions generally led to more turnover.
- Multiple Dedicated Team members departed for opportunities with other FDIC regions or headquarters, other regulators, or the private sector.
- On multiple occasions, the New York field territory supplemented the Dedicated Team with temporary non-LFI examination staff. While necessary, the LFI learning curve and the lack of knowledge regarding SBNY made this practice less than ideal.

Several NYRO officials we interviewed indicated that LFI examiners in the region were aware of the frequent turnover and resource shortages within the Dedicated Team assigned to SBNY which made it more difficult to attract and retain staff. Further, SBNY was frequently in the media spotlight, which required frequent interaction with RMS headquarters to respond to numerous information requests and media articles, further exacerbating resource challenges.

In addition to challenges in filling authorized positions, multiple NYRO and field territory officials commented to us about the adequacy of the skillsets of the Dedicated Team over time prior to the addition of new team members in 2022. These concerns resulted in the need for additional supervisory review, analysis of supporting working papers, substantial re-write of reports, and questions about the quality and sufficiency of work from NYRO officials that would normally not be involved in such activities.

As discussed earlier, in 2022, the NYRO assigned experienced staff to conduct the Corporate Governance targeted review. The resulting Supervisory Letter identified a number of concerning, fundamental corporate governance and risk management weaknesses. NYRO officials surmised these conditions were likely present in earlier examination cycles, but that prior Dedicated Teams had not identified them. The addition of experienced team members and specialists in fall 2022 also identified a number of weaknesses during targeted reviews. NYRO officials indicated that the lack of commensurate expertise on the SBNY team was critical given how quickly the institution was evolving.

We concluded that the vacancies and adequacy of the skillsets of the Dedicated Team slowed earlier identification and reporting of SBNY weaknesses.

NYRO Resource and Staffing Issues

Beyond SBNY, the NYRO has faced persistent staffing challenges in filling the region's LFI authorized positions. The New York region has 61 authorized LFI positions. Since 2020, an average of 40 percent of the LFI positions have been vacant or filled by temporary staff. The use of temporary staff in supervising LFIs is problematic. Multiple NYRO officials indicated that it takes at least six months to become familiar with large institutions such as SBNY and the use of temporary staff, while necessary, is inefficient and presents continuity challenges. Further, on boarding temporary staff requires permanent, dedicated examination team member involvement, consuming scarce time to orient new team members that would otherwise be spent on examination activities. NYRO officials indicated that dedicated examination teams at several large institutions in the in the region, including within the New York field territory were also significantly resource challenged. NYRO management indicated that it had raised staffing concerns to RMS headquarters officials multiple times through several channels since 2020.

Because of regional critical resource shortages, in December 2022, the NYRO completed a Risk-Focused Supervision Project to reallocate resources from lower risk complex institutions to higher risk complex institutions within the New York region. Based on approved 2023 Supervisory Plans for the region's 13 CEP institutions, the NYRO determined that 30 percent of the required dedicated examination team hours would come from positions that were vacant or soon to be vacant. The project determined that seven of 13 CEP institutions had more than one-third of their dedicated team hours vacant. The NYRO identified dedicated examination teams that required extended, experienced LFI assistance and dedicated examination teams from which those resources could be pulled. The project resulted in 2023 Supervisory Plan changes, including cancelled or deferred targeted reviews and reductions in review scope. All changes were approved by regional management. The project resulted in additional resource allocations to two complex institutions, one of which was SBNY. However, SBNY failed before the additional experienced LFI resources could be placed on the Dedicated Team.

NYRO and headquarters RMS officials identified multiple reasons for LFI staffing challenges including the high cost of living in New York, competition from other regulators and private sector firms that can pay more for talent than the federal government, and competition for LFI staff from other FDIC Divisions and headquarters, which may offer greater work-life flexibilities or higher-graded positions. RMS officials also stated that the impact of the pandemic on New York City and surrounding areas negatively affected staff desires to post and move for permanent positions in the region. LFI roles such as the dedicated EIC are demanding positions with a significant workload, requiring an onsite presence and frequent interaction with numerous internal stakeholders from the field, regional, and Washington offices and sophisticated large bank management who may challenge or not be receptive to examination findings. NYRO officials we interviewed and the NYRO lessons learned review noted that, given the nature and difficulty of LFI work, particularly the EIC role, a sentiment exists that there are other similarly-graded positions available within the FDIC that are less difficult or that come with less responsibility. Further, some of those positions offer location flexibility and do not require an onsite presence.

We reviewed LFI staffing information for other FDIC regions to understand whether staffing shortages were limited to the NYRO. We observed that two other regions also have an elevated number of LFI vacancies. Further, the trend of vacancies for several regional offices has increased over the past three years. RMS is also challenged with maintaining a pipeline of commissioned examiners that can advance into the premium examiner ranks, which includes LFI examiners. RMS examiners also serve as the pipeline for commissioned examiner staffing in the FDIC's Division of Complex Institution Supervision and Resolution (CISR). A large percentage of RMS field examiners are pre-commissioned and still learning how to perform community bank point-in-time examinations; they lack the experience to assist with large bank examination activities. In addition, attrition levels for pre-commissioned examiners is elevated.

RMS Actions Taken to Address Resource Challenges

RMS has taken actions to address LFI resource challenges. In 2021, RMS established an FDIC Performance Goal to review the CEP for balancing examination efficiencies with risk-focused forward-looking supervision. The NYRO led a Staffing Resources Working Group to evaluate and make recommendations for improving the CEP. The Working Group made recommendations for making CEP examiner positions more attractive, for example, by increasing compensation or grade levels for EIC positions; allowing greater flexibility for CEP examiner travel and remote work options; and streamlining aspects of the CEP.

RMS headquarters noted that it had developed deputy EIC positions to assist the dedicated EICs for more complicated institutions; offered corporate expert level positions for certain complex EIC assignments; removed the five-year term for CEP EICs that was viewed as an impediment to posting those positions; posted term loan review specialist positions seeking industry credit experts to specifically assist with loan reviews at institutions examined under the CEP; developed position descriptions for credit and emerging technology specialists; provided additional resources to the regions by providing experts in capital markets, information technology, AML/CFT, emerging technology, and model evaluation from across the FDIC to assist with examination work; and sought authorization from the Office of Personnel Management to rehire retired examiners to assist with training newer examiners to allow existing commissioned examiners more time to devote to examination work.

The FDIC also reached a new compensation agreement in 2022 that increased employee pay and bonus incentives. While these actions are important, examination resource shortages, particularly in the New York region is a mission-critical risk that will require a sustained whole-of-agency response.

Conclusion and Matters for Further Study

The weekend of March 10, 2023, was unprecedented. The speed with which depositors withdrew funds from SBNY and SVB was unexpected and surprised the regulators and the banking industry. The coincidence of these two failures and their unprecedented speed may lead to changes in regulation and supervision and reevaluating liquidity risk management. The goal of bank supervision is to promote safety and soundness and financial stability, not to prevent bank failures. Maintaining safety and soundness requires effective challenge from the regulators and receptivity and responsiveness from the banks. In the case of SBNY, our internal review found that the bank could have been more measured in its growth, implemented appropriate risk management practices, and been more responsive to FDIC's supervisory concerns, and the FDIC could have been more forward-looking and forceful in its supervision.

NYRO management is responsible for ensuring the adequate supervision of the banks in its region. While resource shortages were a significant factor in SBNY's supervision, NYRO management is ultimately responsible for prioritizing and risk-focusing the use of scarce resources, ensuring examination activities are completed and communicated timely, ensuring ratings assigned are forward-looking and reflect management weaknesses, and escalating supervisory actions when bank management is not responsive.

RMS headquarters is responsible for ensuring the regions have sufficient examination resources with the necessary skillsets and experience to effectively supervise their portfolio of institutions. That responsibility includes developing strategies and incentives to attract and retain employees to fill LFI positions and working with other FDIC groups, such as the Legal Division and the Division of Administration, to pursue creative solutions for meeting workforce needs, including potentially reconsidering duty station requirements and remote work options. RMS headquarters is also responsible for addressing regional office resource needs; making prioritization decisions across the regional offices and reallocating examination resources based on a nationwide view of risk; and ensuring examination programs, such as the CEP, are effective and achieve their intended objective.

We offer the following matters for the FDIC's consideration or further study.

Area	Matters for Further Study
Guidance	1. Reiterate RMS' forward looking supervision philosophy and the importance of addressing risk management weaknesses before financial decline occurs. 2. Consider the need for enhanced examination guidance related to supervising banks that are overly reliant on uninsured deposit funding or have concentrations in uninsured deposits. 3. Consider the need for enhanced examination guidance related to assessing liquidity risk management practices based on FDIC's experiences supervising SBNY.
Processes	4. Continue to evaluate the continuous examination process (CEP) and implement necessary changes to ensure the CEP provides efficient, effective, and timely, risk-

Area	Matters for Further Study
	based feedback to large banks, including interim CAMELS ratings, when appropriate. 5. As part of item 4, evaluate existing CEP required deliverables and level-of-effort to prepare deliverables in relation to benefits derived. Look for opportunities to streamline program requirements and written deliverables. 6. Incorporate a subsequent events section into the roll-up ROE to reflect situations where substantive changes in the bank's condition occur after the "as of" date, but before the ROE issue date, to ensure the assigned ratings reflect the bank's current condition. 7. Evaluate the SR and MRBA escalation process for situations involving repeat recommendations, and define paths for progressive enforcement when bank management is unable or unwilling to effectively address chronic problem areas. 8. Consider implementing workflow solutions that would track the timeliness of examination deliverables such as targeted reviews/supervisory letters and ROEs, and provide the regions and LBS with reporting information highlighting outlier situations.
Resources	9. Develop a near-term strategy for increasing the attractiveness and interest in LFI positions, particularly LFI EIC positions. Potential and ongoing efforts that could be considered include: • Further differentiating compensation from non-LFI positions. • Continuing to consider Corporate Expert graded positions for larger more complex banks. • Continuing to reduce EIC workloads by assigning deputy EICs, where appropriate. • Reevaluating to what extent LFI positions could be assigned outside of the local duty station of the bank, particularly for hard-to-fill situations. 10. Continue to work with other parts of the Corporation, including the FDIC's Division of Administration, Division of Finance, Legal Division, CISR and Corporate University to enhance the examiner staffing and retention strategy to deliver a healthy and sustainable pipeline of financial institution specialists that can ultimately advance to provide a sufficient number of premium graded examiners, including candidates for LFI positions and CISR positions. Addressing this challenge will require an agency wide effort that is creative and includes fresh perspectives and ideas (e.g., possibly engaging consultants). 11. Continue to explore the use of contractors to provide services that support supervisory functions so examiners can focus on policy, the application of regulations, and other inherently governmental functions. 12. Enhance examiner staffing dashboards to include hiring and attrition trends for LFI and other positions to readily show: • Vacancy trends by region and field office, • Trends for why examination staff leave LFI and other positions, and • Where staff exiting LFI positions go.

Area	Matters for Further Study
	13. Develop a means for monitoring regional dedicated team staffing shortages and develop protocols for RMS headquarters to quickly move staff between regions to address shortages based on a nationwide view of large bank risks.

Appendix 1: Objective, Scope, and Methodology

Objective

In late March 2023, FDIC Chairman Martin J. Gruenberg commissioned the FDIC's Chief Risk Officer to conduct an internal review of the agency's supervision of SBNY and produce a report to the FDIC Board of Directors for release to the public by May 1, 2023.

The objective of this internal review was to provide information about the cause of SBNY's failure and evaluate the FDIC's supervision of SBNY.

Scope and Methodology

The scope of the review included an evaluation of the regulatory supervision of SBNY from 2017 until SBNY's failure on March 12, 2023.

To evaluate the FDIC's supervision of SBNY, we assessed whether the supervisory approach and actions taken with respect to SBNY, specifically related to management and liquidity risks, were commensurate with its risk profile and relevant regulations, policies, and guidelines. Specifically, we:

- Identified and reviewed RMS policies and procedures, including the *RMS Manual of Examination Policies*, the *Formal and Informal Actions Procedures Manual*, *Large Bank Supervision Procedures*, the *LIDI Report Instructions*, and *Case Manager Procedures* that were relevant to SBNY and the supervisory actions taken with respect to the bank;
- Analyzed Supervisory Plans, ROEs, LIDI reports, and Supervisory Letters and summary conclusion memos for in-process targeted reviews that would affect the liquidity and management components of the CAMELS rating, to identify the timing and nature of supervisory actions taken to address management and liquidity risks at the bank;
- Reviewed FDIC- and RMS-prepared documents on SBNY's supervision and failure;
- Interviewed FDIC officials who had supervisory responsibility for SBNY, including officials in the NYRO and examiners in the New York Field Office, to obtain clarification and context regarding key supervisory activities and determinations;
- Interviewed RMS headquarters senior officials and officials from the LBS Branch.
- Interviewed RMS Regional Directors to understand LFI staffing constraints across RMS regions; and
- Participated in interviews with NYSDFS examiners to obtain their perspectives on the supervision of SBNY.

We conducted our work from March 27, 2023 through April 28, 2023. Due to the time constraints of our review, we acknowledge that other reviews of SBNY's failure and FDIC's supervision may identify additional findings and recommendations beyond those identified in this report.

Appendix 2: Supervisory History

During the period of our review, 2017 through SBNY's failure on March 12, 2023, the FDIC supervised SBNY under the CEP. The FDIC developed annual Supervisory Plans, conducted targeted reviews, conducted ongoing monitoring, and issued a roll-up ROE for each annual examination cycle.

2017 Examination Cycle

The FDIC prepared a Supervisory Plan that outlined ongoing monitoring activities and planned onsite targeted reviews for the 2017 supervisory cycle. The Supervisory Plan allocated 10,965 FDIC hours for onsite targeted reviews and 2,977 FDIC hours for ongoing monitoring activities. For this supervisory cycle, the plan included 19 targeted reviews and the roll-up examination. As noted below, the Dedicated Team issued 13 Supervisory Letters in 2017, based on results of targeted reviews. The Supervisory Plan noted that the Dedicated Team planned to expand from three dedicated examiners to four dedicated examiners; however, the Dedicated Team was authorized three examiners in 2017 and was only fully staffed from July 2017 through December 2017.

The 2017 examination cycle commenced January 9, 2017, and included ongoing monitoring and 13 targeted reviews.

Targeted Review	(A) Start Date	(B) Exit Meeting	B – A Elapsed Days	(C) Issue Date	C – B Elapsed Days
C&I Loan Portfolio	1/9/17	3/22/17	72	12/1/17	254
Information Technology	1/17/17	4/25/17	98	12/15/17	234
Model Risk Management	3/27/17	5/3/17	37	12/1/17	212
Sales Practices and Incentive Compensation	5/15/17	5/25/17	10	11/28/17	187
Investment Portfolio	6/5/17	8/14/17	70	12/1/17	109
Dodd-Frank Act Company-Run Stress Test	8/7/17	11/22/17	107	1/29/18	68
Asset and Liability Management	9/5/17	11/3/17	59	3/1/18	118
Anti-Money Laundering	9/18/17	5/22/18	246	6/1/18	10
Internal Loan Review	10/2/17	2/28/18	149	6/1/18	93
Enterprise Risk Management	10/2/17	6/8/18	249	7/5/18	27
Internal Audit	10/16/17	11/21/17	36	3/1/18	100
Signature Financial Portfolio	11/6/17	2/21/18	107	5/14/18	82
CRE Loan Portfolio	11/6/17	7/9/18	245	7/18/18	9

The findings from these targeted reviews and ongoing monitoring activities formed the basis for the conclusions and CAMELS ratings assigned in the 2017 roll-up ROE, which FDIC issued on July 31, 2018. Assigned CAMELS ratings and narrative summary of the Asset Quality, Management, and Liquidity component ratings follow:

Composite Rating	Capital	Asset Quality	Management	Earnings	Liquidity	Sensitivity to Market Risk
2	2	2	2	2	2	2

Asset Quality: The 2017 examination cycle concluded that asset quality was considered generally satisfactory as CRE credit risk management, including stress testing, had improved. The loan portfolio continued to be heavily concentrated in CRE in New York, thus exposing the bank to risk given a shock to the New York real estate market. Concentration risk management practices were assessed as generally satisfactory; however, MRBAs related to CRE stress testing and loan-level sensitivity analyses were outstanding at the conclusion of the examination cycle. In addition, the credit quality and risk management of the C&I portfolio was deemed satisfactory; however, a MRBA was opened related to risk management practices with this portfolio. Several SRs related to the C&I loan portfolio, MRM, the investment portfolio, sales practices and incentive compensation, Dodd-Frank Act Company-Run Stress Test, liquidity, sensitivity to market risk, the Signature Financial portfolio, and internal loan review were also outstanding.

Management: Board and senior management performance was deemed satisfactory. The roll-up ROE noted that management enhanced oversight of the CRE concentration and improved the BSA/AML program. SBNY had spent significant resources on improving systems, processes, and personnel to remediate outstanding issues; effectively manage current exposures; and provide a framework for overseeing a growing institution. While examiners deemed the overall BSA/AML program satisfactory, weaknesses with suspicious activity monitoring led to an MRBA and two apparent violations for failure to report suspicious activities. The ROE also reported weaknesses with the MRM program.

At the conclusion of the examination cycle, there were outstanding MRBAs related to loan exception management, Information Technology (IT) security administration, suspicious activity monitoring and nongovernmental organizations, the use of stress-testing output in strategic and operational decisions, and loan level sensitivity analysis. There were also several SRs in areas such as IT, BSA/AML, corporate governance, enterprise risk management, CRE, and compliance with the Sarbanes-Oxley Act.

Liquidity: The ROE reported that liquidity levels and fund management practices were satisfactory. The funds management program appropriately identified, measured, monitored, and controlled the institution's liquidity position, and included stress testing as well as an adequate contingency funding plan. SBNY's business model continued to result in a significant amount of large, uninsured deposits totaling $27.3 billion and representing 63 percent of total assets. The ROE identified uninsured deposits along with insured high-rate deposits and brokered deposits as a potentially volatile funding concentration.

At the conclusion of the examination cycle, there were no outstanding MRBAs related to liquidity. There were SRs related to incorporating the board's risk tolerance for uninsured deposits into the Risk Appetite Statement; documenting material liquidity stress testing assumptions, including deposits run off; and applying liquidity stress test scenarios to shorter time horizons such as intraday, day-to-day and other time horizons.

2018 Examination Cycle

The FDIC prepared a Supervisory Plan that outlined ongoing monitoring activities and planned onsite targeted reviews for the 2018 supervisory cycle. The Supervisory Plan allocated 9,565 FDIC hours for onsite targeted reviews and 5,154 FDIC hours for ongoing monitoring activities. For this supervisory cycle, the plan included 10 targeted reviews and the roll-up examination. As noted below, the Dedicated Team issued six Supervisory Letters in 2018, based on results of targeted reviews. The Supervisory Plan also noted that the Dedicated Team planned to expand to five dedicated examiners. While the Dedicated Team was authorized for five examiners in 2018, throughout the year the Dedicated Team was never fully staffed.

The 2018 examination cycle commenced January 2, 2018, and included ongoing monitoring and six targeted reviews.

Targeted Review	(A) Start Date	(B) Exit Meeting	B – A Elapsed Days	(C) Issue Date	C – B Elapsed Days
Information Technology	1/2/18	2/20/18	49	8/27/18	188
Enterprise Risk Management	6/4/18	10/18/18	136	11/5/18	18
Model Risk Management	7/2/18	2/13/19	226	3/11/19	26
CRE Concentration Risk Management	7/30/18	2/15/19	200	3/11/19	24
Anti-Money Laundering	9/17/18	4/26/19	221	5/17/19	21
Asset and Liability Management	10/22/18	5/22/19	212	7/1/19	40

The findings from these targeted reviews and ongoing monitoring activities formed the basis for the conclusions and CAMELS ratings assigned in the 2018 roll-up examination report, which FDIC issued on July 31, 2019. Assigned CAMELS ratings and narrative summary of the Asset Quality, Management, and Liquidity component ratings follow:

Composite Rating	Capital	Asset Quality	Management	Earnings	Liquidity	Sensitivity to Market Risk
2	2	2	2	2	2	2

Asset Quality: The 2018 examination cycle concluded that asset quality was satisfactory based on strong credit metrics and improved risk management practices. Assets remained concentrated in CRE loans. C&I portfolio credit quality and risk management practices were satisfactory, and the investment portfolio exhibited lower credit risk exposure. Concentration risk management practices were generally satisfactory; however, MRBAs related to CRE stress testing and loan-level sensitivity analyses were outstanding at the conclusion of the examination cycle. Several SRs related to strengthening various lending policies and procedures, improving borrower and guarantor financial analysis, and expanding loan portfolio monitoring and reporting metrics and limits were also outstanding.

Management: The 2018 ROE concluded that board and management performance remained satisfactory and appropriately identified, measured, monitored, and controlled the risks of the institution's activities. Weaknesses in risk management practices had, or were in the process of, being addressed. Governance standards, the internal control structure, and the audit program were satisfactory. Management had demonstrated the ability to address identified risk management concerns and respond appropriately to regulatory comments. However, significant weaknesses were observed during the 2018 MRM targeted review related to risk governance, risk measurement, issue tracking, model validation and other areas. Examiners also observed BSA/AML weakness related to the higher risk customer review process and the digital deposit account opening process.

At the conclusion of the examination cycle, there were outstanding MRBAs related to MRM and BSA/AML higher risk account reviews. There were also several SRs in areas such as IT, enterprise risk management, and MRM, as well as BSA/AML risk assessment, staffing, suspicious activity monitoring, and customer due diligence.

Liquidity: The ROE noted that liquidity risk management and management systems were commensurate with the institution's complexity, risk profile, and scope of operations. However, liquidity risk was increasing, and several liquidity related financial metrics had breached board-established warning levels. Liquidity risk was described as increasing due to asset growth outpacing deposit generation. The board needed to ensure compliance with its approved low liquidity risk appetite and take action to control and appropriately manage and monitor the bank's increasing liquidity risks. Risk management and control processes and material assumptions used in liquidity stress testing required further development, and the liquidity stress testing model had not been appropriately validated. Uninsured deposits continued to be the primary funding source and represented 82 percent of total deposits and 63 percent of total assets as of December 31, 2018, and were a funding concentration.

At the conclusion of the examination cycle, there was an outstanding MRBA related to maintaining compliance with the board-approved liquidity risk appetite and ensuring that liquidity strategies aligned with the board's risk appetite. There were also SRs related to liquidity stress testing and contingency funding plans.

2019 Examination Cycle

The FDIC prepared a Supervisory Plan that outlined ongoing monitoring activities and planned onsite targeted reviews for the 2019 supervisory cycle. The Supervisory Plan allocated 6,465 FDIC hours for onsite targeted reviews and 6,704 FDIC hours for ongoing monitoring activities. For this supervisory cycle, the plan included seven targeted reviews and the roll-up examination. As noted below, the Dedicated Team issued six Supervisory Letters in 2019, based on results of targeted reviews. The Supervisory Plan also noted that the Dedicated Team would continue to include five dedicated examiners. While the Dedicated Team was authorized for five examiners in 2019, it was only fully staffed from November 2019 through December 2019.

The 2019 examination cycle commenced January 2, 2019, and included ongoing monitoring and six targeted reviews.

Targeted Review	(A) Start Date	(B) Exit Meeting	B – A Elapsed Days	(C) Issue Date	C – B Elapsed Days
Information Technology	1/2/19	4/17/19	105	9/9/19	145
Credit Risk Management	5/20/19	7/30/19	71	9/9/19	41
Interest Rate Risk	6/24/19	9/18/19	86	10/24/19	36
Strategic Planning	7/29/19	11/25/19	119	12/30/19	35
Anti-Money Laundering	9/23/19	1/29/20	128	5/4/20	96
Liquidity Risk Management	10/21/19	6/16/20	239	7/6/20	20

Ongoing monitoring findings related to the status of corrective actions taken by bank management to address outstanding MRBAs and SRs were communicated to the bank via Supervisory Letters dated December 6, 2019, and April 21, 2020. The findings from these targeted reviews and ongoing monitoring activities formed the basis for the conclusions and CAMELS ratings assigned in the 2019 roll-up ROE, which was issued on October 2, 2020. Assigned CAMELS ratings and narrative summary of the Asset Quality, Management, and Liquidity component ratings follow:

Composite Rating	Capital	Asset Quality	Management	Earnings	Liquidity	Sensitivity to Market Risk
2	2	2	2	2	3	2

Asset Quality: The 2019 examination cycle concluded that asset quality and asset concentration risk management were satisfactory and supported by an appropriate credit risk management framework, including governance, policies and procedures, reporting, and measurement of exposures. A strategic shift to reduce the CRE concentration and diversify into more C&I lending was noted. At the conclusion of the examination cycle, there was an outstanding MRBA related to CRE loan sensitivity analyses. There were also several SRs in areas such as borrower and guarantor analysis, loan underwriting, risk ratings, and loan pricing.

Management: The 2019 ROE concluded board and management performance remained satisfactory and that the board and senior management appropriately identified, measured, monitored, and controlled the risks of the institution's activities. The ROE noted weaknesses with liquidity funds management and continued concerns with BSA/AML high-risk account reviews due to both the number of outstanding reviews and the quality of completed reviews. Implementation of the ERM framework also needed further development to be fully effective and transparent.

At the conclusion of the examination cycle, there were outstanding MRBAs related to board reporting and oversight of BSA/AML, developing an action plan to address BSA/AML weaknesses, BSA/AML higher risk account reviews, and MRM. There were also several SRs in areas such as IT, enterprise risk management, interest rate risk management, and MRM, as well as BSA/AML internal controls and risk assessment, and OFAC models and monitoring.

Liquidity: The ROE reflected the Liquidity component rating downgrade to "3" and concluded funds management practices needed improvement, as previously communicated to SBNY via a Supervisory Letter. Although management had returned the previously non-compliant liquidity ratios to levels above board-approved minimums, risk management practices were not commensurate with the institution's complexity, risk profile, and scope of operations due to weaknesses with liquidity contingency planning, liquidity stress testing, and internal controls. These weaknesses prevented the bank from appropriately understanding the potential effects of adverse liquidity events and emergency cash flow needs. The board needed to strengthen funds management practices to better identify, measure, monitor, and control the bank's daily funding needs to cover both expected and unexpected deviations from normal operations, including the reliance on the uninsured deposit funding concentration. Improvement was also needed in the development of the deposits modeling framework, including assumption testing, model documentation, and model validation.

The ROE noted SBNY's most critical liquidity exposure came from the potential volatility associated with the high-level of uninsured deposits, identified as a funding concentration, representing 82 percent of deposits and 66 percent of total assets. As of December 31, 2019, there were 128 clients with deposit account balances exceeding $50 million, or 40 percent of total deposits.

At the conclusion of the examination cycle, there were outstanding MRBAs related to the board-approved liquidity risk appetite and liquidity contingency plans. There were also several SRs related to liquidity stress testing and assumption documentation, as well as internal controls and contingency funding plans.

2020 Examination Cycle

The FDIC prepared a Supervisory Plan that outlined ongoing monitoring activities and planned targeted reviews for the 2020 supervisory cycle. The Supervisory Plan allocated 5,680 FDIC hours for onsite targeted reviews and 7,014 FDIC hours for ongoing monitoring activities. For this supervisory cycle, the plan included six targeted reviews and the roll-up examination. In response to the pandemic, in September 2020, a revised Supervisory Plan for August 2020 through December 2020 was included in the Supervisory Plan for 2021. The revised Supervisory Plan noted four targeted reviews would be completed in 2020. As noted below, the Dedicated Team issued four Supervisory Letters in 2020, based on results of the targeted reviews. The original and revised Supervisory Plans noted that the Dedicated Team would continue to include five dedicated examiners. The Dedicated Team was authorized for five examiners in 2020 and was fully staffed for most of the year, but experienced turnover in two positions.

The 2020 examination cycle commenced January 1, 2020, and included ongoing monitoring and four targeted reviews.

Targeted Review	(A) Start Date	(B) Exit Meeting	B – A Elapsed Days	(C) Issue Date	C – B Elapsed Days
Information Technology	1/2/20	6/3/20	153	11/4/20	154
Anti-Money Laundering	9/21/20	1/28/21	129	3/5/21	36
Internal Audit	10/6/20	9/3/21	332	9/15/21	12
Liquidity Risk Management	11/30/20	6/8/21	190	7/9/21	31

Ongoing monitoring findings related to the status of corrective actions taken by bank management to address outstanding MRBA and SRs were communicated to the bank via Supervisory Letters dated October 19, 2020, and January 19, 2021. The findings from the targeted reviews and ongoing monitoring activities formed the basis for the conclusions and CAMELS ratings assigned in the 2020 roll-up ROE, which was issued on November 19, 2021. Assigned CAMELS ratings and narrative summary of the Asset Quality, Management, and Liquidity component ratings follow:

Composite Rating	Capital	Asset Quality	Management	Earnings	Liquidity	Sensitivity to Market Risk
2	2	2	2	2	3	2

Asset Quality: The 2020 examination cycle concluded that asset quality remained satisfactory despite increasing credit risk in the loan portfolio. The increase in credit risk was centered in the CRE loan portfolio and resulted from the adverse economic effects of the Covid-19 pandemic. Credit risk selection, the credit granting process, and overall credit administration and monitoring practices were generally satisfactory. There were no asset--related MRBAs outstanding at the conclusion of the examination cycle. Outstanding SRs related to CRE loan workout staffing, borrower reputation risk analysis, and loan pricing methodologies.

Management: The 2020 ROE concluded board and management performance remained satisfactory and that the board and senior management appropriately identified, measured, monitored, and controlled the risks of the institution's activities. Strategic planning was satisfactory. Examiners deemed financial performance satisfactory, although funds management practices continued to need improvement. The BSA/AML program had improved, but issues requiring the board and management's attention remained outstanding, such as the quality of periodic higher risk customer account reviews. Management had improved the MRM governing framework, but remediation related to the validation process, effective challenge, model development documentation, and other areas was still ongoing.

At the conclusion of the examination cycle, there were outstanding MRBAs related to BSA/AML higher risk account reviews and MRM. There were also several SRs in areas such as IT, internal audit, MRM, and sensitivity to market risk management, as well as BSA/AML model documentation and validation, customer due diligence, and suspicious activity alert clearing.

Liquidity: The ROE concluded that funds management practices required improvement. On-balance sheet liquidity had increased year over year from 11 percent to 25 percent of total assets, but inadequate liquidity contingency planning, liquidity stress testing, and internal controls continued to impede management's ability to identify and establish appropriate mitigating plans against the potential volatility of uninsured deposits. Although management began addressing the deficiencies identified in the 2019 Liquidity targeted review, the 2020 Liquidity targeted review concluded more time was required to develop and implement an appropriate liquidity Contingency Funding Plan commensurate with the bank's risk profile.

The 2020 Liquidity Supervisory Letter noted that examiners expected development of appropriate timeframes, frequencies, and metrics, in addition to stress scenario testing, to occur after SBNY implemented a new liquidity model. Liquidity stress testing did not enable identification, measurement, monitoring, or control of funding risk; thus, management could not establish an appropriately-sized liquidity buffer. Moreover, management had not developed a metric to identify the impact of adverse events to capital levels or the limitations of remediation plans. In addition, deposit assumptions remained in development, sensitivity testing had not been completed, and accurate rate caps had not been modeled. Model documentation continued to lack a complete description of model operations, approach, testing, and outcome analysis, which were critical to ensuring the continued relevance of the model.

The single-funding source concentration grew larger in 2020 with uninsured deposits representing 88 percent of total deposits and 76 percent of total assets. There were 196 clients with balances that exceeded $50 million as of year-end 2020, accounting for $35 billion, or 55 percent of total deposits. Digital assets-related deposits accounted for the largest deposit growth with $7.3 billion or approximately 32 percent of total 2020 deposit growth.

An MRBA related to liquidity contingency planning and SRs related to liquidity stress testing and assumption documentation, as well as internal controls and effective challenge, were outstanding.

2021 Examination Cycle

The FDIC prepared a Supervisory Plan that outlined ongoing monitoring activities and planned targeted reviews for the 2021 supervisory cycle that was included in the revised 2020 Supervisory Plan. The Supervisory Plan allocated 13,288 FDIC hours for targeted reviews and ongoing monitoring activities. In September 2020, the 2021 Supervisory Plan was issued. The Supervisory Plan noted seven targeted reviews would be completed in 2021, referenced as priority reviews, and the roll-up examination. As noted below, the Dedicated Team issued five Supervisory Letters in 2021, based on results of the targeted reviews. The Supervisory Plan noted that the Dedicated Team would continue to include five examiners. While the Dedicated Team was authorized for five examiners in 2021, it was only fully staffed in January 2021 through February 2021 and July 2021 through December 2021.

The 2021 examination cycle commenced January 1, 2021, and included ongoing monitoring and seven targeted reviews[11].

Targeted Review	(A) Start Date	(B) Exit Meeting	B – A Elapsed Days	(C) Issue Date	C – B Elapsed Days
Information Technology	4/12/21	6/16/21	65	2/3/22	232
Model Risk Management	5/10/21	5/9/22	364	6/17/22	39
Anti-Money Laundering	7/19/21	1/31/22	196	2/10/22	10
Liquidity Risk Management	11/8/21	6/7/22	211	7/28/22	51
Current Expected Credit Losses	11/8/21	6/21/22	225	8/23/22	63

Ongoing monitoring findings related to the status of corrective actions taken by bank management to address outstanding MRBA and SRs were communicated to the bank via a Supervisory Letter dated September 13, 2021. A Supervisory Letter dated January 31, 2022, communicated the results of the third quarter 2021 continuous monitoring reviews of private equity and CRE lending.

The findings from these targeted reviews and ongoing monitoring activities formed the basis for the conclusions and CAMELS ratings assigned in the 2021 roll-up ROE, which was issued on December 13,

[11] The results for one targeted review were reported as part of ongoing monitoring in a quarterly Supervisory Letter and the results of another targeted review were reported in the roll-up ROE. These two targeted reviews are not reflected in the table, because a targeted review Supervisory Letter was not issued to communicate the results of the review.

2022. The exit meeting with bank management was held on November 15, 2022. The meeting with the board occurred on February 15, 2023. Assigned CAMELS ratings and narrative summary of the Asset Quality, Management, and Liquidity component ratings follow:

Composite Rating	Capital	Asset Quality	Management	Earnings	Liquidity	Sensitivity to Market Risk
2	2	2	2	2	3	2

Asset Quality: The 2021 examination cycle concluded that asset quality was satisfactory. Although underwriting, credit, and concentration risk management practices remained generally satisfactory, weaknesses had been identified within certain aspects of credit administration and board reporting. There were no asset-related MRBAs outstanding at the conclusion of the examination cycle. Outstanding SRs were related to borrower reputation risk analysis, loan pricing methodologies, the CRE credit risk rating framework, the appraisal re-evaluation process, and fund banking board committee reporting.

Management: The 2021 ROE concluded board and management performance remained satisfactory and management continued to remediate weaknesses noted in prior examination cycles. However, weaknesses in corporate governance were emerging. Further, several recommendations had remained open for a protracted period and expected remediation dates continued to be extended. Multiple liquidity risk management recommendations had been open since 2019 and management had not developed an effective issue tracking system, an SR outstanding since 2018.

Examiners noted that SBNY had significantly exceeded asset and loan growth estimates listed in multi-year business plans and materially breached asset and loan growth key performance indictor limits. Examiners stressed it was imperative the board and management ensured the corporate governance and risk management framework of the bank maintained pace with its significant growth and was in line with the current size, complexity, and risk profile of the bank.

Examiners deemed the MRM program to be generally satisfactory. Although management remediated all prior MRM SRs, examiners identified weaknesses during the 2021 MRM targeted review. Further, the lack of model validation precluded examiners from performing full-scope reviews of the models and reflected a poor risk management practice.

At the conclusion of the examination cycle, there was one outstanding MRBA related to liquidity contingency planning. There were also several SRs in areas such as IT, MRM, and sensitivity to market risk management, as well as BSA/AML higher risk customer reviews, customer due diligence, and suspicious activity alert clearing.

Liquidity: The ROE again concluded that liquidity remained less than satisfactory. Funds management practices remained hampered by the lack of a comprehensive contingency funding plan and the lack of a validated stress testing model with institution-specific underlying assumptions. The need for strong funds management practices was underscored by the institution's funding risk profile, which had increased throughout 2020 and 2021. Since the prior year, SBNY's balance sheet grew rapidly by 60 percent due to a significant increase in large uninsured deposits and digital asset industry deposits. The combination of rapid deposit growth, increasing funding concentrations, and unknown deposit stability had contributed to an increasing liquidity risk profile, which highlighted the urgent need for robust risk management practices that enable the board and management to adequately control liquidity risk and limit potential adverse financial impacts on the bank.

Management had made limited progress in addressing findings from the 2019 Liquidity targeted review. Management had not identified an appropriate liquidity buffer, demonstrated the ability to adequately measure and control the impact of deposit volatility during stress events, or properly assessed the likelihood of and survival requirements for a variety of idiosyncratic and macroeconomic stress events.

The most positive sign as it related to liquidity was increasing on-balance sheet liquidity, then consisting of cash, interest-bearing bank balances, and unpledged securities totaling $43 billion or 36 percent of total assets as of year-end 2021. However, digital asset-related deposits rose well above the key risk indicator set for those deposits at 10 percent of total assets. Instead of decreasing deposits to meet the previously prescribed limit, SBNY management increased the limit to 35 percent of total assets in December 2021. There was no evidence of appropriate analysis or stress testing being completed to support the limit increase.

The contingency funding plan still required improvement. The plan did not identify metrics that would measure the impact of stress events to liquidity and capital to ensure the institution could survive the entire stress time horizon. Additionally, underlying deposit assumptions had not been finalized. In 2021, SBNY engaged a consultant to complete a deposit study to identify trends in depositor behavior from regression analyses. Management planned to complete scenario development and documentation subsequent to the consultant's study, which was anticipated for completion in 2022.

The new Liquidity Model was finally implemented in 2021 and was anticipated to assist with development of the contingency funding plan. The model had been considered a significant improvement over the legacy Excel-based model, as it provided the opportunity to readily identify, measure, and monitor the potential impact of liquidity stress events over a 24-month period. However, model documentation had not been finalized, and the model had not been validated.

Uninsured deposits had increased to 92 percent of total deposits and 82 percent of total assets. SBNY had also developed a concentration of very large depositors. Approximately 60 clients held deposit account balances in excess of $250 million, representing about 40 percent of total deposits. In addition, roughly 290 clients held deposit account balances exceeding $50 million for a total of $65 billion, which represented 61 percent of total deposits. Management believed the deposit base was considerably stable based on the length of time of the relationships, the volume of client accounts, and the various types of products clients utilized at SBNY. However, management's assumptions were not well documented and had not been substantiated.

Digital asset-related deposits totaled 24 percent of total assets, resulting in its own independent concentration. Those deposits had grown rapidly in 2021 by $19.7 billion and totaled $28.7 billion on December 31, 2021. The portfolio consisted of digital asset exchanges (44 percent), stable coin issuers (23 percent), mining operations (9 percent), digital custody platforms, digital lenders, and other businesses related to the digital asset industry. Many of the depositors also utilized the Signet platform. The other large depositor concentration included four single depositors, each comprising greater than 2 percent of total assets, totaling 14 percent of total assets. Three of the depositors were digital asset-related clients.

At the conclusion of the examination cycle, there was an outstanding MRBA related to liquidity contingency planning. Several SRs related to liquidity stress testing and assumption documentation, as well as internal controls and effective challenge, were also outstanding.

2022 Examination Cycle

The FDIC prepared a Supervisory Plan that outlined ongoing monitoring activities and planned targeted reviews for the 2022 supervisory cycle. The Supervisory Plan allocated 15,250 FDIC hours for targeted reviews and ongoing monitoring activities. For this supervisory cycle, the plan included seven targeted reviews[12] and the roll-up examination. As noted below, the Dedicated Team issued two Supervisory Letters, based on results of targeted reviews, before the bank failed. The Supervisory Plan noted that the Dedicated Team would be expanded to seven examiners, which was authorized; however, the Dedicated Team was never fully staffed in 2022.

Targeted Review	(A) Start Date	(B) Exit Meeting	B – A Elapsed Days	(C) Issue Date	C – B Elapsed Days
Information Technology	3/14/22	1/9/23	301	2/8/23	30
Corporate Governance	3/21/22	5/19/22	59	1/23/23	249
Fund Banking	8/29/22	1/24/23	148	n/a[a]	n/a[a]
Liquidity Risk Management	10/3/22	n/a[b]	n/a[b]	n/a[a]	n/a[a]
Anti-Money Laundering	10/24/22	n/a[b]	n/a[b]	n/a[a]	n/a[a]

[a] Pending issuance when SBNY failed.
[b] Exit meeting had not been held when SBNY failed.

The 2022 roll-up examination was in-process when SBNY failed on March 12, 2023.

Corporate Governance Supervisory Letter: In March 2022, RMS moved up a Corporate Governance targeted review that was scheduled to start in July 2022 and assigned a team of senior examiners, with assistance of regional resources, to conduct the review. FDIC conducted the previous corporate governance targeted review in 2016. The review focused on SBNY's implementation of their digital asset initiatives, which had experienced significant growth in 2020 and 2021. The review identified a number of corporate governance weaknesses. The targeted review team noted that the issues identified likely impacted the institution as a whole and urged the Dedicated Team to perform similar targeted reviews in future examination cycles.

The Corporate Governance targeted review resulted in new MRBAs related to issues and event management and SBNY's organization structure and decision-making processes. The review also resulted in several new SRs related to the product implementation process, key risk and performance indicators, operational risk management oversight, and risk and control self-assessments and the control environment.

[12] One targeted review was a Compliance/CRA examination. The results of Compliance/CRA examinations are not communicated using targeted review Supervisory Letters, but instead communicated in the roll-up ROE.

2022 Draft Liquidity Targeted Review: The NYRO was drafting a Supervisory Letter to the 2022 Liquidity targeted review when SBNY failed. The draft findings indicated that SBNY funds management practices continued to require improvement. Underlying assumptions for the liquidity stress test and deposit outflow methodology were not fully developed and documented. In addition, significant deficiencies were identified in the independent review of liquidity and funds management, including the relevance of the internal audit procedures and evaluation. This was of heightened importance given SBNY's high reliance on uninsured deposits, and the elevated level of digital asset deposits that drove the high-risk liquidity profile of the bank.

On-balance sheet liquidity was composed of cash, interest-bearing bank balances, loans held for sale, and unpledged securities. As of September 30, 2022, it measured 31 percent of total assets compared to 40 percent on September 30, 2021. The decline was caused by a $17.8 billion reduction in liquidity and $7.7 billion increase in assets over the period. In addition to the impact of the cryptocurrency market volatility that was specific to SBNY, the industry experienced slowing of deposit growth given the end of the pandemic and the low interest rate environment.

As of September 30, 2022, the uninsured deposits concentration was 82 percent of total assets. Digital asset deposits also represented a concentration at 21 percent of total assets. SBNY had experienced volatility in deposit levels, and reputation risks from media exposure had elevated liquidity risk. Liquidity risk did not align with the board-approved low risk appetite.

The draft targeted review proposed one new MRBA and a number of new SRs. Issuing the accompanying Supervisory Letter would have resulted in SBNY having two liquidity-related MRBAs and 19 liquidity-related SRs outstanding.

Information Technology Supervisory Letter: The Information Technology targeted review contained SRs related to end-of-life management, vulnerability timeframes, configuration management, IT succession plan, project management reporting, risk assessment, asset inventory, and business continuity management.

Other In-Process Supervisory Letters: At the time of failure, Fund Banking, AML/CFT, and Liquidity targeted reviews were in process when SBNY failed. Preliminarily, these reviews identified a number of weaknesses. As a result, initial discussions related to ratings downgrades and potential enforcement actions had started within the NYRO.

Appendix 3: Open MRBAs and SRs from Targeted Reviews

Table 14: MRBAs Remaining Open by Examination Cycle

Targeted Review Scope	2017	2018	2019	2020	2021	2022*
Commercial and Industrial Loan Portfolio	1	1				
Information Technology	1					
Model Risk Management		1	1	1		
Liquidity Risk Management		1	2	1	1	2*
Anti-Money Laundering	1	1	3	1		8*
Commercial Real Estate	2	3	1			
Corporate Governance						2
Fund Banking						1*
Total	5	7	7	3	1	13*

Source: Internal review team analysis of SBNY roll-up ROEs.
* Proposed MRBAs from targeted review Supervisory Letters in process at the time of SBNY's failure.

Table 15: SRs Remaining Open by Examination Cycle

Targeted Review Scope	2017	2018	2019	2020	2021	2022*
Liquidity Risk Management	3	5	18	15	11	19*
Model Risk Management	10	10	10	9	12	
Information Technology	10	9	11	6	4	8
Anti-Money Laundering	6	8	10	6	3	13*
Sensitivity to Market Risk	4	3	15	13	4	
Commercial Real Estate	12	19	1	1		
Enterprise Risk Management	2	6	6	1	1	
Credit Risk Management			8	3	4	
Commercial and Industrial Loan Portfolio	7	6			1	
Strategic Planning			6	2	1	
Investments	5	1	1			
Dodd-Frank Act Company-Run Stress Test	7					
Corporate Governance	1	2	2			4
Internal Audit				5		
Sales Practices and Incentive Compensation	3	1				
Signature Financial Portfolio	4					
Internal Loan Review	4					
Sarbanes-Oxley Act	2	2				
Current Expected Credit Losses					1	
Fund Banking						8*
Total	80	72	88	61	42	52*

Source: Internal review team analysis of SBNY roll-up ROEs.
* Proposed SRs from targeted review Supervisory Letters in process at the time of SBNY's failure.

Appendix 4: Liquidity-Related SRs and MRBAs

Table 16: Open Liquidity MRBAs and SRs from the 2019 Liquidity Targeted Review by Examination Cycle

Issue Description	2019	2020	2021	2022*
Ensure that the bank is in compliance with the board approved liquidity risk appetite. If non-compliance is noted the board should ensure appropriate actions are taken to return the bank to the approved risk appetite and other actions are taken to control and appropriately manage and monitor the bank's increasing liquidity risks. The board should institute processes to make certain that business liquidity strategies align with the board's risk appetite. (MRBA)	✓			
Ensure that adequate liquidity contingency planning is in place. Liquidity contingency planning should include a well-developed and supported liquidity stress test (LST) framework and a comprehensive contingency funding plan (CFP). (MRBA)	✓	✓	✓	✓
Better support the assumptions for deposit run-off, in adverse LST scenarios. (SR)	✓	✓	✓	✓
Review and support the deposit growth assumption in the Prompt Corrective Action stress test scenario. (SR)	✓			
Consider the impact of high rate deposits in the Prompt Corrective Action LST scenario and ensure that the calculation and applicability of the local rate cap is appropriate. (SR)	✓	✓	✓	
Identify and model run-off rates for municipal deposits. (SR)	✓			
Develop documented support for the deposits quantitative risk rating framework. (SR)	✓	✓	✓	Recast
Consider depositor's sensitivity to the bank's condition as part of the deposit rating framework. (SR)	✓	✓	✓	Recast
Support the assignment of the average sampled depositor runoff to the remaining un-sampled deposit portfolio. (SR)	✓	✓		
Establish metrics and limits to ensure that the level of liquidity is sufficient at each intervening time interval, up to and including the final time period. (SR)	✓	✓	✓	
Conduct sensitivity testing of key assumptions in the LST. (SR)	✓	✓	✓	
Improve the LST model documentation, so that its utilization, limitations, and key assumptions are clear. (SR)	✓	✓	✓	✓
Ensure that an adequate validation of the LST is performed that includes effective challenge. (SR)	✓	✓	✓	
Expand and document their process for identifying specific liquidity risks and developing and selecting LST scenarios. (SR)	✓	✓	✓	
Complete more frequent liquidity stress tests for scenarios that significantly impact the liquidity position. (SR)	✓	✓	✓	
Lengthen the time horizon of LSTs to ensure that they include the entirety of the stress event. (SR)	✓	✓	✓	

Issue Description	2019	2020	2021	2022*
Consider the potential impact on capital from actions taken to raise liquidity. (SR)	✓	✓	✓	✓
The scope of the periodic CFP operational test should be expanded beyond the confirmation of borrowing line availability. A complete operational test should ensure administrative, legal, and communication hurdles are understood prior to an actual contingency situation. (SR)	✓			
Improve the system of effective challenge for the liquidity stress modeling methodology. (SR)	✓	✓	✓	
Improve the internal controls relating to liquidity risk management, including the internal audit of the liquidity function. (SR)	✓	✓	✓	Recast

Source: Internal Review Analysis of SBNY targeted review Supervisory Letters.
*SR and MRBA status from the 2022 Liquidity targeted review Supervisory Letter in process at the time of SBNY's failure. Two MRBAs and 19 SRs, which includes recast SRs, were open based on the 2022 Liquidity targeted review Supervisory Letter in process at the time of SBNY's failure.

Appendix 5: Other Supervisory Efforts

LBS Proposed LIDI and Management Downgrades

The first quarter 2022 LIDI report included comments that appear to indicate a downgrade to the Management component rating was warranted. In addition, the LBS analyst who reviewed the LIDI suggested that SBNY's outlook be downgraded from C Stable to C Negative due to increased funding stress, continued management weaknesses noted, and preliminary concerns with corporate governance. The NYRO agreed with the downgrade.

The LBS analysis recommended a second downgrade from C Negative to D Stable for the second quarter 2022 LIDI report based on the increasing risk profile of the institution, rapid capital call lending growth, increased funding stress, and digital assets-related deposit activity. The second quarter LIDI report noted that material weaknesses had been identified with the bank's corporate governance, credit, and liquidity/funds management practices that deserved the board's attention. The NYRO did not accept the LBS analyst's second quarter downgrade recommendation. The NYRO ultimately downgraded SBNY's LIDI rating to D Stable and also changed the Management Component rating outlook from "Stable" to "Negative" in the third quarter 2022 LIDI report, issued in January 2023.

During 2022, LBS also provided comments on the draft 2021 roll-up ROE suggesting a downgrade in the Management component rating from "2" to "3." At the time, the NYRO disagreed with the approach and timing of the recommendation and explained that the NYRO would be considering multiple downgrades as it worked through the ongoing 2022 targeted reviews and the 2022 roll-up examination. The NYRO noted that some of the support for the Management downgrade related to 2022 findings, which were outside the scope of the 2021 roll-up ROE. In addition, given the extremely extended timeline of the 2021 roll-up report, the NYRO was working to issue the 2021 roll-up ROE in order to shift its focus to 2022 targets and findings, which were identifying a number of weaknesses. The NYRO worried that adjusting ratings at that late point would have added time to an already-extended process and, due to a number of factors, was not deemed advisable. The NYRO issued the 2021 ROE with a "2" Management component rating. NYRO management wanted to maintain the linear integrity of the 2021 examination cycle and the 2022 Corporate Governance Targeted Review was part of the 2022 examination cycle. The NYRO planned to issue the 2021 roll-up ROE, then move to issuing the Corporate Governance Supervisory Letter and completing the ongoing 2022 Liquidity, Fund Banking, and AML/CFT targeted reviews. During this process, the NYRO planned to initiate interim ratings downgrades, including the Management component. The NYRO also planned to pursue enforcement actions based on 2022 examination results. SBNY failed before the NYRO could complete the three ongoing targeted reviews and initiate commensurate enforcement actions.

Heightened Liquidity Monitoring Efforts

In November 2022, the Dedicated Team began submitting daily requests to SBNY for deposit and loan balance information and borrowing capacity reports. The requests were in response to increasing reputation risk from SBNY's association with digital asset-related entities that were subject to public announcements regarding fraud and law enforcement investigations.

The NYRO escalated daily monitoring on March 1, 2023, given events at Silvergate, another bank commonly referenced in press articles with SBNY. Starting March 7, 2023, the Dedicated Team asked SBNY to provide more granular daily reports on digital asset deposits, including daily balance sheet and cash flow information, following publication of an unfavorable news article. Starting March 8, 2023, the Dedicated Team initiated daily liquidity calls with the bank.

The Dedicated Team was alarmed by SBNY management's lack of urgency, formality, and preparedness. These concerns were escalated to NYRO management who promptly met with SBNY executives to stress the seriousness of the situation and importance of proactive liquidity risk management. The NYRO began preparing interim ratings downgrades to Liquidity ("3" to "4"), Management ("2" to "3"), and the Composite ("2" to "3") on March 10, 2023.

The Dedicated Team held a daily liquidity call with the bank at noon on March 10, 2023. At that time, SBNY had experienced $2.5 billion in net deposit outflows, which was easily covered by available on-balance sheet liquidity and borrowing capacity. By 6:00 that evening, SBNY had experienced a significant deposit run, with $18.6 billion leaving the bank, most of which left in the last two hours of the day. Bank management had a difficult time initially ascertaining how much borrowing it needed to fund pending wires, had approached the FHLB too late in the day to draw against its line, and did not have sufficient collateral pledged at the Federal Reserve's Discount Window to cover pending wire requests. Bank officials worked with officials at the FHLB and the FRB-NY to resolve the bank's funding shortfall through actions of the FHLB to subordinate its interest in collateral to the FRB-NY, to allow Discount Window access just before the Federal Reserve's wire room closed. The FDIC and NYSDFS met with SBNY staff around midnight to discuss the bank's plans and the unacceptable reporting during the evening hours. SBNY proposed pledging additional collateral to the FRB-NY, including collateral that had previously been rejected.

On March 11, 2023, the Dedicated Team, the NYRO, and Washington officials met throughout the day to discuss SBNY's liquidity. Meetings were also held throughout the day with FDIC officials in the Division of Resolutions and Receiverships (DRR), the NYSDFS, FRB-NY, FHLB, and SBNY's management and board. These meetings were held to try to determine SBNY's then-existing liquidity position. Concurrently, the NYRO and NYSDFS expanded the in-process interim ratings changes and that night downgraded Liquidity, Management, and the Composite ratings to "5" and Capital to "3" based on management's inability to properly identify, measure, monitor, and control the bank's liquidity position.

On March 12, 2023, the Dedicated Team continued to perform liquidity analyses based on updated information obtained from SBNY. These analyses continued to require the FDIC to correct information SBNY provided them, based on information they received from FRB-NY and the FHLB. Throughout the day, NYRO officials met with various parties, including the RMS headquarters office, DRR, and Legal Division officials; NYSDFS officials; FRB-NY officials; and FHLB officials to discuss SBNY's liquidity position and the resolution process.

Liquidity risk at the bank continued to rise to a critical level as withdrawal requests mounted, along with uncertainties about the bank's ability to meet those requests and potentially others. The high level of uninsured deposits and the growing demand for withdrawals raised significant doubts about the bank's continued viability. Regulatory staff were monitoring the amount of deposit withdrawals that had been queuing up, as compared to on-balance sheet liquidity resources and then-existing borrowing capacity. At 5:47 pm EDT, maximum outgoing wires for Monday, March 13, 2023, had increased to $7.9 billion. The wire queue had been steadily growing all weekend. Based on a best-case scenario, FDIC determined SBNY had $3 billion in available liquidity, or 4 percent of total deposits. At 5:30 p.m. EDT on Sunday, March 12, 2023, the NYSDFS closed SBNY and appointed the FDIC as receiver—within 53 hours of SVB's failure.

Appendix 6: Acronyms

AML	Anti-Money Laundering
BSA	Bank Secrecy Act
C&I	Commercial and Industrial
CAMELS	Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk
CEP	Continuous Examination Process/Program
CISR	Division of Complex Institution Supervision and Resolution
CFP	Contingency Funding Plan
CFT	Countering the Financing of Terrorism
CRA	Community Reinvestment Act
CRE	Commercial Real Estate
DIF	Deposit Insurance Fund
DRR	Division of Resolutions and Receiverships
EIC	Examiner-in-Charge
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank of New York
FIL	Financial Institution Letter
FRB-NY	Federal Reserve Bank of New York
GAO	U.S. Government Accountability Office
IDI	Insured Depository Institution
IT	Information Technology
LBS	Large Bank Supervision Branch
LFI	Large Financial Institution
LIDI	Large Insured Depository Institution
MRBA	Matter Requiring Board Attention
MRM	Model Risk Management
NYRO	New York Regional Office
NYSDFS	New York State Department of Financial Services
PCG	Private Client Group
RADD	Regional Automated Document Distribution and Imaging System
RMS	Division of Risk Management Supervision
ROE	Report of Examination
SBNY	Signature Bank of New York
SE	Supervisory Examiner
SR	Supervisory Recommendation
UFIRS	Uniform Financial Institutions Rating System