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MEMORANDUM

December 1, 2004

To Our Clients and Friends

Re: Federal Reserve Bank Holding Company Rating System

The Federal Reserve Board (the “Board”) has issued a revised bank holding company (“BHC”) rating system which provides greater emphasis on risk management and a framework for assessing the potential impact of nondepository affiliates on the subsidiary depository institutions. The Board stated that the rating system will more closely align BHC ratings to its shift in supervisory practices to an assessment of a BHC’s risk management and financial factors. The revised rating system will be effective January 1, 2005.

The revised BHC rating system is substantially the same as the rating system the Board proposed in July.¹ However, all component and subcomponent ratings will be assigned a numeric rating of 1 to 5, with 1 indicating the highest rating. The proposed rule would have rated the risk management (R) subcomponents on a three-point qualitative scale of strong, adequate or weak.

The revised BHC rating system also includes guidance on its implementation based on a BHC’s size and complexity. The Board also indicated that if, in the process of analyzing the financial condition and risk management programs of the consolidated organization, a major difference of opinion regarding the safety and soundness of the subsidiary depository institution emerges between the Board and the depository institution’s primary regulator, then the depository institutions (D) component rating will reflect the Board’s evaluation.

The final rule can be found at http://www.schwartzandballen.com/whats_new.html.

If you have any questions, please call Gilbert Schwartz, Robert Ballen or Tom Fox at (202) 776-0700.

¹ Information on the proposed BHC rating system can be found at http://www.schwartzandballen.com/FRB_developments.html.