



**Federal Deposit Insurance Corporation**  
550 17th Street NW, Washington, DC 20429-9990

## Financial Institution Letter

FIL-41-2012

September 25, 2012

### NEW CLASSIFICATION SYSTEM FOR CITING VIOLATIONS IN REPORTS OF EXAMINATION

**Summary:** The FDIC's Division of Depositor and Consumer Protection has revised the classification system for citing violations identified during compliance examinations to better communicate to institutions the severity of violations and to provide more consistency in the classification of violations cited in Reports of Examination. Violations identified during an examination will be assigned to one of three levels based primarily on the impact to consumers. The change is intended to help focus the institution's attention on the most significant issues identified during the examination and place violations that are more technical in nature in the appropriate perspective. This new three-level violation system replaces the current two-level system and will be used in examinations started on or after October 1, 2012.

**Statement of Applicability to Institutions Under \$1 Billion in Total Assets:** This Financial Institution Letter applies to all FDIC-supervised financial institutions.

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FDIC-Supervised Institutions

**Suggested Routing:**  
Chief Executive Officer  
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**Attachment:**  
[New Classification System for Citing Violations in Reports of Examination](#)

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**Note:**  
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#### Highlights:

- The key purpose of the classification system in the Compliance Report of Examination is to effectively communicate to the institution the level of severity of the violations cited so that the institution can appropriately prioritize efforts to address identified issues.
- Level 3/High Severity violations include violations that may result in restitution to consumers in excess of \$10,000 and pattern and practice violations of anti-discrimination laws.
- Level 2/Medium Severity violations include violations resulting in potential restitution to consumers in an amount below the Level 3 threshold and other systemic or recurring violations.
- Level 1/Low Severity violations involve isolated or sporadic violations. Level 1 violations that are adequately addressed during the examination and that do not indicate weakness in the compliance management system will not be included in the Report of Examination.
- The new classification system will become effective for examinations started on or after October 1, 2012.