ALABAMA BANKERS ASSOCIATION, INC.
WASHINGTON
Regulatory REVIEW

Sponsored by
ALABAMA BANKING SERVICES
- QUALITY ENDORSEMENTS -

February 2019 | Volume 17 | Number 2

When there is a deadline associated with an item, you will see this graphic:

"In February There Is Everything to Hope for And Nothing to Regret" – Patience Strong

Joint federal agency issuances, actions and news

New Rule Covers Private Flood Insurance (02.12.2019)

WASHINGTON—Five federal regulatory agencies issued a joint final rule to implement provisions of the Biggert-Waters Flood Insurance Reform Act of 2012 requiring regulated institutions to accept certain private flood insurance policies in addition to National Flood Insurance Program policies.

The rule, which takes effect July 1, 2019:

- Implements the Biggert-Waters Act requirement that regulated lending institutions accept private flood insurance policies that satisfy criteria specified in the Act;
- Allows institutions to rely on an insurer's written assurances in a private flood insurance policy stating the criteria are met;
- Clarifies that institutions may, under certain conditions, accept private flood insurance policies that do not meet the Biggert-Waters Act criteria; and
- Allows institutions to accept certain flood coverage plans provided by mutual aid societies, subject to agency approval.

Regulations implementing the federal flood insurance statutes prohibit regulated lending institutions from making loans secured by improved real property located in special flood hazard areas unless the property has adequate flood insurance coverage.

Source link.

Comment: The final rule requires that a bank accept a private flood insurance policy that provides coverage at least as broad as an SFIP and in satisfaction of the flood insurance rules. The final rule allows a bank to determine that a private policy provides the necessary coverage if the following statement is included within the policy or as an endorsement to the policy: "This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation." A bank can simply rely on the statement, without independently assessing the policy. However, the final rule does not require insurance companies to include such a statement in a private policy, and a bank can't reject a private policy simply because the statement is not provided.

Community Bank Leverage Ratio: Notice of Proposed Rulemaking (02.05.2019)

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) are issuing a notice of proposed rulemaking that would provide a simplified measure of capital adequacy for qualifying community banking organizations consistent with section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. Qualifying community banking organizations that comply with and elect to use the community bank leverage ratio (CBLR) framework and that maintain a CBLR greater than 9 percent would be considered to have met the capital requirements for the "well-capitalized" capital category under the agencies' prompt corrective action (PCA) frameworks and would no longer be subject to the generally applicable capital rule.

Source link.

Comment: In a blog post, the Conference of State Bank Supervisors (CSBS) stated that the proposed '...simplified capital framework would result in regulatory burden that exceeds any relief provided.' For community banks this is a critical rule making. It is imperative that the regulatory agencies hear from community bankers across the country on this proposal. Comments are due 04.19.2019.

Shared National Credit Review Finds Some Improvement in Credit Quality, Risk Remains Elevated in Leveraged Loans (01.25.2019)

Federal banking agencies find that risk in the portfolio of large syndicated bank loans has declined, due to improving conditions in most sectors. Despite the improvement, the dollar volume of loans rated below "pass," as a percentage of total loans, remains elevated compared with levels experienced in prior economic cycles, according to the Shared National Credit (SNC) Program Review.

The report--released by the Federal Reserve Board (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC)--reflects the results of reviews in 2018 covering SNC loans originated by or before March 31, 2018. Furthermore, the review finds increased risks associated with leveraged lending. The agencies remind banks to update credit risk management practices as the risk profile of borrowers and the industry changes.

The 2018 SNC portfolio included 8,571 credit facilities to 5,314 borrowers, totaling $4.4 trillion, up from $4.3 trillion in 2017. U.S. banks held the greatest volume of SNC commitments at 44.3 percent of the portfolio, followed by foreign banking organizations and other investor entities such as securitization pools, hedge funds, insurance companies, and pension funds. Effective January 1, 2018, the agencies increased the minimum aggregate loan commitment threshold to be included in the review from $20 million to $100 million. Under the revised definition, loan commitments increased modestly compared with levels reported in 2017. The number of borrowers and credit facilities, however, has declined.

Reviewed loan commitments were stratified by the severity of their risk--special mention, substandard, doubtful, or loss, the last three of which are known as "classified." Overall, the level of loans rated below "pass," as a percentage of the total SNC portfolio, decreased year-over-year from 9.7 percent to 6.7 percent. Leveraged lending was the primary contributor to the overall "special mention" and "classified" rates, comprising 73 percent of "special mention" and 86 percent of "classified" commitments. Investors outside the banking industry held the greatest volume of "special mention" and "classified" commitments, followed by U.S. banks and foreign banking organizations.

The agencies conduct SNC reviews in the first and third calendar quarters with some banks receiving two reviews and others receiving a single review each year. The agencies issue a single statement annually that includes combined findings from the previous 12 months. This practice presents a complete view of the entire SNC portfolio, which can be compared with prior years' reports. The next report will be published following the third quarter 2019 SNC examination.

For additional information, see the attached SNC Program Review Report.

Source link.

Comment: The report encourages banks to update credit risk management policies (something that should be done at least annually!) according to the current risk climate.

CFPB actions and news

Small Entity Compliance Guide for the Payment-Related Provisions of the Payday Lending Rule (02.20.2019)

The Bureau has released a small entity compliance guide that summarizes the payment-related provisions of the Payday, Vehicle Title, and Certain High-Cost Installment Loans Rule (Payday Lending Rule). The guide is available here.

Source link.

Bureau Publishes 2019 Lists of Rural or Underserved Counties (02.12.2019)

The Bureau has published on its website the 2019 list of rural and underserved counties and a separate 2019 list that includes only rural counties. The Bureau has also updated the rural and underserved areas website tool for 2019. The lists and the tool help creditors determine whether a property is located in a rural or underserved area for purposes of applying certain regulatory provisions related to mortgage loans. A creditor that makes a first-lien mortgage loan secured by a property located in a rural or underserved area during 2019 meets the requirements to be a creditor that operates in rural or underserved areas during 2020 and for loan applications received before April 1, 2021.

The 2019 lists can be found here. The rural and underserved areas tool can be found here.

Source link.

Comment: Banks that are $10B or less in total assets can avoid the cumbersome requirements of the "qualified mortgage" rules and Appendix Q for loans that are originated and kept in portfolio. To qualify for this automatic QM status, the loan should comply with the prepayment penalty and points and fees limitations. There can be no negative amortization or interest only loans. However, balloon notes should qualify. Although Appendix Q need not be complied with, the bank must "consider and verify" debt, income, and financial resources. Multiple methods of documentation of these findings may be used.

CFPB Proposes Amendments to Payday Lending Rule (02.06.2019)

The Bureau has issued two notices of proposed rulemaking regarding the Payday, Vehicle Title, and Certain High-Cost Installment Loans Rule (2017 Payday Lending Rule). The first rulemaking (the Reconsideration NPRM) proposes to rescind the mandatory underwriting provisions of the 2017 Payday Lending Rule, and is available here. The second rulemaking (the Delay NPRM) proposes to delay the compliance date for the mandatory underwriting provisions, and is available here.

The Bureau has also posted a summary of the two proposed rulemakings and an unofficial redline of the Reconsideration NPRM's proposed amendments to the 2017 Payday Lending Rule. You can access the summary and redline here.

Source link.

Comment: Under the first rulemaking regarding underwriting, the Bureau explained that it has preliminarily found that rescinding the underwriting provisions would increase consumer access to credit. The Bureau's second notice of proposed rulemaking would delay the compliance date of the underwriting provisions from August 19, 2019 to November 19, 2020, and depending upon the first rulemaking, the underwriting provisions may have been repealed or substantially revised by a new final rule. The notices of proposed rulemaking do not amend or delay the effective date of the payment provisions of the 2017 Final Rule. The payment provisions prohibit certain lenders from making a new attempt to withdraw funds from an account after two consecutive attempts have failed without obtaining the customer's consent for further withdrawals. Comments for delaying the effective date are due 03/18/2019. Comments on the proposal to rescind parts of the payday rule are due 05/15/2019.

CFPB Blog - New Protections for Servicemembers and Veterans Alert (02.07.2019)

Free credit monitoring, medical debt credit reporting restrictions, and mortgage protections for those recently back from active duty.

In May 2018, new protections for servicemembers and veterans were signed into law . The Federal Trade Commission (FTC) and the Bureau previously highlighted the new federal law that went into effect on September 21, 2018 requiring free security freezes and one year fraud alerts at the three nationwide credit reporting agencies (CRAs).

In addition, this law also addresses a number of key financial issues for the military, including:

- Holding lenders to more stringent requirements when they participate in VA's refinance programs
- Ensuring continued foreclosure protections for servicemembers up to one year after they leave active duty
- Prohibiting medical debt that should have been paid by the VA to be reported as part of a veteran's credit history
- Providing free credit monitoring for active duty military, including the national guard

Source link.

Comment: The FTC and CFPB previously highlighted the new federal law that went into effect on September 21, 2018 requiring free security freezes and one-year fraud alerts at the three nationwide credit reporting agencies (CRAs).

TILA-RESPA Integrated Disclosure FAQs (02.01.2019)

The questions and answers below pertain to compliance with the TILA-RESPA Integrated Disclosure Rule (TRID or TRID Rule).

Reviewing these questions and answers is not a substitute for reviewing TILA, RESPA, Regulation Z, or its official interpretations (also known as the commentary). The statutes, Regulation Z, and its official interpretations are the definitive sources of information regarding the requirements.

Topics

Corrected closing disclosures and the three business-day waiting period before consummation

Model forms

Source link.

Comment: The CFPB's FAQs address: *What types of changes to the initial Closing Disclosure require a corrected Closing Disclosure at least three business days before consummation; * Whether an APR decrease requires a corrected Closing Disclosure at least three business days before consummation; * Whether the "No Wait for Lower Mortgage Rate" amendment changed requirements for the timing of corrected Closing Disclosures; and * Whether the model forms still provide a safe harbor despite not including recent TRID amendments.

CFPB Blog - List of Consumer Reporting Companies (02.01.2019)

Over the past few years, we have updated and published a list of consumer reporting companies. Today, we present you with the 2019 edition of our list. You can now filter and search the list online. This year's list includes the following features:

- Information to request a report. This includes the latest company name and contact information. You can filter the companies by market area, such as employment, tenant, bank, subprime, insurance, or medical.
- New tips on which specialty reports might be important for you to fact-check depending on your specific situation. When you know a consumer report is going to be used in a decision about you, check your consumer reporting information ahead of time.
- Useful identity verification information about how consumer reporting companies try to make sure you are who you say you are—before they give you your reports. It also includes the types of questions they might ask to verify your identity.
- Free reports guide. The list identifies which companies will provide your report to you for free once every twelve months. You can filter the list to only show companies that offer this service.
- Security freeze information. Some companies on this list will limit third-party access to your data if you request it through a security freeze.

Source link.

Comment: This list is directed at consumers and provides additional information on understanding credit reports, reminds consumers to fact check their credit reports annually, and provides a variety of ways for consumers to protect credit reporting data.

Bureau Publishes 2019 Edition of the Reportable HMDA Data: A Regulatory and Reporting Overview Reference Chart (01.31.2019)

On Jan. 31, 2019, the Bureau published the Reportable HMDA Data: A Regulatory and Reporting Overview Reference Chart for Data Collected in 2019.

You can access the Reportable HMDA Data: A Regulatory and Reporting Overview Reference Chart for HMDA Data Collected in 2019 chart here.

Comment: The 2019 edition of the chart includes the revisions incorporated in the 2019 Filing Instructions Guide, along with changes from Section 104(a) of the 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act.

Office of Servicemember Affairs – Annual Report (01.24.2019)

We are releasing the sixth annual report from the Office of Servicemember Affairs (OSA) highlighting issues and emerging trends facing servicemembers, veterans, and military families. The Consumer Financial Protection Bureau (CFPB) and the OSA are committed to ensuring that servicemembers have high levels of financial readiness, allowing them to remain mission-focused.

Source link.

Comment: Credit or consumer reporting and debt collection continue to be the most complained about consumer financial products or services reported by military servicemembers - 64% of servicemember complaints to the bureau are related to consumer reporting and debt collection.

FDIC actions and news

2018 Annual Report (02.14.2019)

In accordance with:

- the provisions of section 17(a) of the Federal Deposit Insurance Act,
- the Chief Financial Officers Act of 1990, Public Law 101-576,
- the Government Performance and Results Act of 1993 (as amended) and the GPRA Modernization Act of 2010,
- the provisions of Section 5 (as amended) of the Inspector General Act of 1978,
- the Reports Consolidation Act of 2000, and
- the provisions of the Fraud Reduction and Data Analytics Act of 2015,

The FDIC is pleased to submit its 2018 Annual Report to the President of the United States, the President of the U.S. Senate, and the Speaker of the U.S. House of Representatives.

Source link.

Voluntary Private Education Loan Rehabilitation Programs (02.05.2019)

The FDIC and the Board of Governors of the Federal Reserve System jointly are providing an advisory on Voluntary Private Education Loan Rehabilitation Programs to make financial institutions aware of an amendment to section 623 of the Fair Credit Reporting Act (FCRA). This amendment is contained in section 602 of the Economic, Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA). It gives consumers the opportunity to rehabilitate a private education loan with a previously reported default under certain conditions. Financial institutions that choose to establish a private education loan rehabilitation program under Section 602 of the EGRRCPA (Section 602 Program) that satisfies the statutory requirements, including written approval of the terms and conditions from their federal regulatory agency, are entitled to a safe harbor from potential claims under the FCRA related to removal of the reported default.

Source link.

Comment: The key word is 'voluntary.'

**PUBLISHED* Final Rule on Reciprocal Deposits and Seeks Comments on Brokered Deposits and Interest Rate Restrictions (12.19.2019)*

The Federal Deposit Insurance Corporation (FDIC) took two actions related to brokered deposits. The FDIC adopted a final rule related to the treatment of reciprocal deposits, and it also issued an advance notice of proposed rulemaking (ANPR) related to brokered deposits and the interest rate restrictions.

The final rule implements Section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection Act to exempt certain reciprocal deposits from being considered as brokered deposits for certain insured institutions. The final rule also makes conforming amendments to the FDIC's regulations governing deposit insurance assessments.

Under the reciprocal deposit exception addressed in the final rule, well-capitalized and well-rated institutions are not required to treat reciprocal deposits as brokered deposits up to the lesser of 20 percent of their total liabilities or $5 billion. Institutions that are not both well capitalized and well rated may also exclude reciprocal deposits from their brokered deposits under certain circumstances.

The final rule will take effect 30 days after publication in the Federal Register.

The FDIC, through the ANPR, is also seeking comments on all aspects of the brokered deposit and interest rate regulations. The ANPR is part of the FDIC's effort to comprehensively review its regulations and policies.

Since the requirements for brokered deposits were put in place, the financial services industry has seen significant changes in technology, business models, and products. In addition, changes to the economic environment have raised a number of issues relating to the interest rate restrictions. The FDIC will carefully consider comments received in response to this ANPR in determining what actions may be warranted.

Comments on the ANPR will be accepted for 90 days from the date of publication in the Federal Register.

Source link.

Comment: This ANPR was finally published in the Federal Register on 02.06.2019. We encourage community bankers across the country to weigh in on this issue as well. Comments are due 05.07.2019

OCC actions and news

OCC Hosts Compliance and Operational Risk Workshops in Milwaukee (02.12.2019)

WASHINGTON — The Office of the Comptroller of the Currency (OCC) will host two workshops in Milwaukee, Wisconsin, at the Hilton Garden Inn Milwaukee Downtown, March 26 and 27, for directors of national community banks and federal savings associations supervised by the OCC.

The Compliance Risk workshop on March 26 combines lectures, discussion, and exercises on the critical elements of an effective compliance risk management program. The workshop also focuses on major compliance risks and critical regulations. Topics of discussion include the Bank Secrecy Act, Flood Disaster Protection Act, Fair Lending, Home Mortgage Disclosure Act, Community Reinvestment Act, and other compliance hot topics.

The Operational Risk workshop on March 27 focuses on the key components of operational risk—people, processes, and systems. The workshop also covers governance, third-party risk, vendor management, internal fraud, and cybersecurity.

The workshop fee is $99 and open to directors of national community banks and federal savings associations supervised by the OCC. Participants receive course materials, assorted supervisory publications, and lunch. The workshop is limited to the first 35 registrants.

The workshops are taught by experienced OCC staff and are two of the 24 offered nationwide to enhance and expand the skills of national community bank and federal savings association directors. To register for this workshop, visit www.occ.gov/occworkshops.

Source link.

Comment: These workshops represent significant learning opportunities for national bank directors in addition to networking opportunities.

Comptroller of the Currency Supports CFPB Proposed Rule on Short-Term Small-Dollar Lending (02.11.2019)

WASHINGTON—Comptroller of the Currency Joseph Otting issued the following statement supporting Director Kathy Kraninger and the Consumer Financial Protection Bureau's proposed rule rescinding requirements that lenders make certain underwriting determinations before issuing short-term small-dollar loans.

> *On February 6, 2019, the Consumer Financial Protection Bureau took an important and courageous step that will allow banks and other responsible lenders to again help consumers meet their short-term small-dollar needs. The proposed rule allows lenders to re-enter the market with quality products and services that offer consumers better regulated, priced, and structured products.*
>
> *Each year, millions of Americans rely on nearly $90 billion in small-dollar loans, typically between $300 and $5,000. This kind of credit helps families cope with emergencies and assists small businesses with meeting short-term expenses. When regulatory actions took banks out of the market, the demand did not go away. Other lenders stepped in. The shrinking supply and steady demand drove up prices and promoted much less favorable terms.*
>
> *By reestablishing a framework of rules that allow responsible lenders to compete, the market can work better for everyone. When banks offer products with reasonable pricing and repayment terms, consumers benefit from other services that banks regularly provide, such as financial education and credit reporting.*
>
> *Banks may not be able to serve all of this large market, but they can reach a significant portion of it and bring additional options and more competition to the marketplace while delivering safe, fair, and affordable products that promote the long-term financial goals of their customers.*

Source link.

Comment: Note that the OCC withdrew its Deposit Advance Product Guidance in October 2017. If the CFPB rescinds the ATR requirements as proposed, it would be helpful if the OCC promptly provide additional guidance for banks that want to offer small-dollar loan products.

Thresholds Increase for the Major Assets Prohibition of the Depository Institution Management Interlocks Act Rules (02.05.2019)

The Office of the Comptroller of the Currency (OCC) published a notice of proposed rulemaking in the Federal Register on January 31, 2019, that would increase the major assets prohibition thresholds for management interlocks in the OCC's rule implementing the Depository Institution Management Interlocks Act (DIMIA). The proposed rule was issued jointly with the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (together with the OCC, the agencies).

The agencies will accept comments on this notice of proposed rulemaking through April 1, 2019.

Note for Community Banks

The proposed rule would reduce the number of national banks and federal savings associations subject to the major assets prohibition in the OCC's DIMIA rule by increasing both major assets prohibition thresholds from $1.5 billion and $2.5 billion to $10 billion.

Source link.

OCC Hosts Risk Governance and Credit Risk Workshops in Dallas (01.28.2019)

WASHINGTON — The Office of the Comptroller of the Currency (OCC) will host two workshops at the OCC Southern District Office in Dallas, Texas, March 5-6, for directors of national community banks and federal savings associations supervised by the OCC.

The Risk Governance: Improving Director Effectiveness workshop on March 5 combines lectures, discussion, and exercises to provide practical information for directors to effectively measure and manage risks. The workshop also focuses on the OCC's approach to risk-based supervision and major risks in the financial industry.

The Credit Risk: Directors Can Make a Difference workshop on March 6 focuses on credit risk within the loan portfolio, such as identifying trends and recognizing problems. The workshop also covers the roles of the board and management, how to stay informed of changes in credit risk, and how to effect change.

The workshop fee is $99 and open to directors of national community banks and federal savings associations supervised by the OCC. Participants receive course materials, assorted supervisory publications, and lunch. The workshop is limited to the first 35 registrants.

The workshops are taught by experienced OCC staff and are two of the 24 offered nationwide to enhance and expand the skills of national community bank and federal savings association directors. To register for this workshop, visit www.occ.gov/occworkshops.

Source link.

Comment: These workshops represent significant learning opportunities for national bank directors in addition to networking opportunities.

OCC Promotes Earned Income Tax Credit Awareness Day (01.26.2019)

The OCC encourages national banks and federal savings associations to work in their communities to educate the public about and to promote the EITC and free tax assistance programs.

“Not only does this tax break help working families, it can also provide an economic boost to the communities that national banks and federal savings associations serve,” said Otting.

Created in 1975, the EITC is the federal government’s largest program for helping working Americans. The EITC is a refundable federal income tax credit for low- to moderate-income workers intended to offset the burden of social security taxes. When the EITC exceeds the amount of taxes owed, it results in a refund to eligible taxpayers who claim and qualify for the credit.

In 2018, more than 25 million eligible taxpayers received $63.8 billion in EITCs. The average amount received was about $2,488. The maximum amount in 2019 is $6,431 for taxpayers filing jointly with three or more qualifying children, and $3,461 with one qualifying child.

Unfortunately, only 80 percent of working families who could qualify every year claim the EITC, according to the Internal Revenue Service (IRS). By promoting the EITC to their customers, banks and federal savings associations can help increase the percentage of eligible taxpayers benefiting from the tax break.

Source link.

Comment: Even though the ’official day’ has passed, it’s not too late to promote this information!

Federal Reserve actions and news

Federal Reserve Board Begins 2019 Survey of Consumer Finances (02.13.2019)

The Federal Reserve Board in March will begin its Survey of Consumer Finances, a statistical study of household finances that will provide policymakers with important insight into the economic condition of a broad cross section of American families.

The survey has been undertaken every three years since 1983. It is being conducted for the Board by NORC, a social science research organization at the University of Chicago, through December of this year.

The data collected will provide a representative picture of what Americans own (from houses and cars to stocks and bonds), how and how much they borrow, and how they bank. Past study results have contributed to policy discussions about the recovery of households from the Great Recession, changes in the use of credit, the use of tax-preferred retirement savings accounts, and a broad range of other issues.

Source link.

Comment: Summary results for the 2019 study are expected to be published in late 2020.

Senior Loan Officer Opinion Survey on Bank Lending Practices (02.04.2019)

Survey of up to eighty large domestic banks and twenty-four U.S. branches and agencies of foreign banks. The Federal Reserve generally conducts the survey quarterly, timing it so that results are available for the January/February, April/May, August, and October/November meetings of the Federal Open Market Committee. The Federal Reserve occasionally conducts one or two additional surveys during the year. Questions cover changes in the standards and terms of the banks' lending and the state of business and household demand for loans. The survey often includes questions on one or two other topics of current interest.

Source link.

Comment: From the survey – 'Nearly every bank that reported having eased standards or terms over the past three months attributed this change, in part, to increased competition from other banks or nonbank lenders.' The likelihood is that competition for loans will only increase as more 'disruptors' enter the marketplace.

Other federal action and news

CSBS - Proposed Community Bank Leverage Ratio Would Provide Reg Burden Not Relief (02.15.2019)

The community bank leverage ratio (CBLR) proposed by federal regulators won't provide the regulatory relief that Congress intended. Instead, as proposed, the simplified capital framework would result in regulatory burden that exceeds any relief provided.

The problem stems from the creation of a proposed new prompt corrective action (PCA) framework for banks that use the CBLR but there is an easy fix, as we said in a letter this week to the OCC, Federal Reserve and FDIC.

Congress directed the federal agencies to develop the CBLR in Section 201 of the Economic Growth Regulatory Relief and Consumer Protection Act last spring. The goal was to provide qualifying community banks relief from the complexities and burdens of the current risk-based capital rules while ensuring that they maintain a high quality and quantity of capital consistent with requirements of the current rules.

The interagency CBLR proposal, released February 8, allows certain community banks with less than $10 billion in total assets to elect to use the CBLR if they have a CBLR greater than 9 percent. Banks can choose to opt out of the CBLR at any time and return to complying with the current capital requirements. However, if a bank does not opt out and its CBLR falls to 9 percent or below, then the bank would be considered less than well capitalized under the new PCA framework, which would trigger many operational restrictions.

We believe the newly proposed prompt corrective action is unnecessary and unwarranted. Instead, the CBLR framework should require a community bank that falls below the CBLR to begin reporting capital ratios under the current risk-based capital rules.

To make that transition smoother from an operational standpoint, we believe the CBLR should use the current Tier 1 leverage ratio rather than creating a new capital measure, which the proposal refers to as CBLR tangible equity. This would reduce burdens in transitioning into and out of the CBLR framework, reduce the changes that would need to be made to current reporting processes and preserve the ability for supervisors and other stakeholders to compare capital adequacy across institutions in different capital frameworks.

To be clear - state regulators and CSBS are encouraged by the OCC, Fed and FDIC's efforts. We just want to make sure that the CBLR provides the community banks we regulate regulatory relief that exceeds any new regulatory burdens created in implementing the CBLR.

Source link.

Comment: The FTC began this review process in June 2017 when it solicited public comment on the CAN-SPAM rule. Verdict – no change!

FTC Completes Review of CAN-SPAM Rule (02.12.2019)

The Federal Trade Commission announced that it has completed its first review of the CAN-SPAM Rule, which establishes requirements for commercial e-mail messages and gives recipients the right to opt out of receiving them. The Commission voted to keep the Rule with no changes.

The Rule requires that a commercial e-mail contain accurate header and subject lines, identify itself as an advertisement, include a valid physical address, and offer recipients a way to opt out of future messages. As part of its regular, systematic review of all its rules and guides, the FTC in June 2017 sought public comment on the Rule, including whether it is still needed, the costs and benefits of the Rule, and whether changes needed to be made to the Rule in response to technological and economic developments. The FTC also sought comment on three specific issues related to the CAN-SPAM Rule, including whether the Commission should change the categories of messages treated as "transaction or relationship messages," shorten the time period for processing opt-out requests, or specify additional activities or practices that might be considered as aggravated violations.

The FTC received 92 comments, which overwhelmingly favored keeping the Rule. After reviewing the comments, the Commission concluded that the Rule does benefit consumers and does not impose substantial economic burdens, and that no changes to the Rule were needed at this time.

The Commission voted 5-0 to approve publication of the confirmation of the Rule in the Federal Register. It will be published in the Federal Register shortly.

Source link.

CSBS Data Corner: Community Bank Consolidation (02.05.2019)

Industry consolidation has been a constant theme in the banking sector for more than a decade. The number of community banks decreased from over 8,000 institutions in 2004 to just over 5,000 banks in 2018. However, despite the dwindling number of banks over time, the share of community banks as a percent of total banks in the system jumped up after the great recession and has held fairly constant since then (decreased slightly), a signal that community banks and non-community banks are consolidating at similar paces. The definition of community bank can be found in the FDIC Community Banking Study.

Source link.

Comment: 'To begin a study of community banking, it is necessary to define what it means to be a community bank. Most people are able to articulate the characteristics of community banks, as the characteristics tend to revolve around how and where a community bank conducts business. For example, community banks focus on providing traditional banking services in their local communities. They obtain most of their core deposits locally and make many of their loans to local businesses. For this reason, they are often considered to be "relationship" bankers as opposed to "transactional" bankers. This means that they have specialized knowledge of their local community and their customers. Because of this expertise, community banks tend to base credit decisions on local knowledge and nonstandard data obtained through long-term relationships and are less likely to rely on the models-based underwriting used by larger banks.' – FDIC Community Banking Study.

CSBS Report: Community Banks Forecast Change in Competitive Landscape (01.31.2019)

Community banks historically see comparably sized banks as their biggest competitor for a number of lending products, but fintech is changing this outlook, concludes research by two noted economists.

Community banks overall tend to compete with other small banks in the lending business, as reflected in the recent CSBS 2018 Community Banking Survey. Nearly 55 percent of the respondents viewed other small banks as their primary competitor for small business, while 21 percent said the same of residential and nearly 28 percent said small banks were their competition for consumer lending.

However, the outlook for future competition is far different. Only 38 percent of the banks expected small banks to be their primary competition for small business lending, while the percent of community banks that saw residential lending as a competitor dropped to 16 percent and to 20 percent for consumer lending.

Source link.

Comment: See the index for survey results by state. Many respondents noted pressure on net interest income, changing demographics in rural areas, downward pressure on noninterest income and decreasing loan demand. To compensate, one banker suggested that '...community banks need to change the way they compete with credit unions and larger banks.' Amen!

Publications, articles, reports, studies, testimony & speeches

Industrial Production and Capacity Utilization - G.17 (02.15.2019)

Industrial production decreased 0.6 percent in January after rising 0.1 percent in December. In January, manufacturing production fell 0.9 percent, primarily as a result of a large drop in motor vehicle assemblies; factory output excluding motor vehicles and parts decreased 0.2 percent. The indexes for mining and utilities moved up 0.1 percent and 0.4 percent, respectively. At 109.4 percent of its 2012 average, total industrial production was 3.8 percent higher in January than it was a year earlier. Capacity utilization for the industrial sector decreased 0.6 percentage point in January to 78.2 percent, a rate that is 1.6 percentage points below its long-run (1972–2018) average.

Source link.

Dallas Fed Energy Survey Suggests Oil Price Drop Won't Cause Sector Collapse in 2019 (02.14.2019)

Following a banner year in 2018, will U.S. oil producers retrench and reduce capital spending after the recent double-digit oil price decline? The latest Dallas Fed Energy Survey provides some clues about what may be next.

Source link.

Comment: While activity levels plateaued in fourth quarter 2018 and uncertainty about the outlook is up dramatically, capital spending in 2019 is likely to remain close to prior-year levels, precluding a dramatic short-term contraction in activity.

Encouraging Economic Development in High-Poverty Rural Communities - Chairman Jerome H. Powell (02.12.2019)

At "Rural Places, Rural Spaces: Closing Financial Services Gaps in Persistent Poverty America," a policy forum sponsored by Hope Enterprise Corporation, Mississippi Valley State University, Itta Bena, Mississippi.

It is a great pleasure to visit the Mississippi Delta. This region gave America the priceless musical heritage of *the Blues. It was also the site of some of the watershed events of the civil rights movement. But the Delta, like many rural areas, has long confronted the challenge of poverty. Today I'll speak about three areas of opportunity for addressing the challenges of rural poverty--education and workforce development, entrepreneurship and small business development, as well as access to financial services--the topic of this conference.*

Source link.

Comment: It's worth noting that many of the rural communities mentioned by Chairman Powell are served by independent community banks.

Inverted Yield Curve (Nearly Always) Signals Tight Monetary Policy, Rising Unemployment (02.12.2019)

With long-term interest rates falling and short-term rates rising, there has been increasing talk of a possible yield-curve inversion and speculation about what an inversion might mean for the U.S. economy.

The yield curve shows how the yields on government debt securities vary with time to maturity. A yield-curve inversion occurs when the return to holding soon-to-mature securities exceeds the return to holding securities that will mature later.

We look specifically at the difference in yield between Treasuries maturing in one year and those maturing in 10 years. Using that definition, every U.S. recession during the past 60 years has been preceded by a yield-curve inversion, and every significant, sustained inversion but one has been followed by a recession (Chart 1). In the single exception, during the mid-1960s, the economy's growth slowed sharply, but fiscal stimulus prevented a downturn.

Source link.

Comment: An inverted yield curve is an interest rate environment in which long-term debt instruments have a lower yield than short-term debt instruments of the same credit quality. This type of yield curve is the rarest of the three main curve types and is considered to be a predictor of economic recession.

A Conversation on Community Banking - Governor Michelle W. Bowman (02.11.2019)

At the Conference for Community Bankers, sponsored by the American Bankers Association, San Diego, California

Good morning. It is a pleasure to be here today to talk about the Federal Reserve's commitment to and oversight of community banking. I appreciate the invitation to attend the American Bankers Association's Conference for Community Bankers, as community banking has been a focus of my career and plays a vital role in supporting our economy. I believe it is particularly important to bring together community bankers at conferences like this to discuss issues impacting your banks and the communities that you serve.

Source link.

Comment: Governor Bowman is the first Fed governor to fill the role created by Congress for someone with community banking experience to serve on the central bank's board.

Consumer Credit - G.19 (02.07.2019)

In 2018, consumer credit increased 5 percent, with revolving and nonrevolving credit increasing 2-3/4 percent and 5-1/2 percent, respectively. Consumer credit increased at a seasonally adjusted annual rate of 6-1/2 percent in the fourth quarter and at a rate of 5 percent in December.

Source link.

The Value of Patience – Dallas FRB President Robert S. Kaplan (02.05.2019)

In the January 2019 meeting, the Federal Open Market Committee (FOMC) left the federal funds rate unchanged in a range of 2.25 to 2.5 percent and communicated that it "will be patient" as it determines what future adjustments to the target range for the federal funds rate may be appropriate.

The FOMC also issued a "Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization," which reflects our decision to continue to implement monetary policy in a regime in which control over the level of the federal funds rate is exercised via a so-called "floor system" with an ample supply of reserves.[1] The Committee also said that it is prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments.

The FOMC began the process of gradually reducing the size of its balance sheet in the fall of 2017. Through January, the Fed has reduced its balance sheet by approximately $400 billion.

Source link.

Comment: President Kaplan pointed to slowing single-family building permits and existing home sales as well as weaker readings in manufacturing and consumer confidence surveys.

Are Disappearing Employer Pensions Contributing to Rising Wealth Inequality? (02.01.2019)

The share of U.S. workers covered by a traditional employer-sponsored pension plan has declined dramatically over the past few decades. Fewer jobs today have any form of employer-sponsored retirement plan coverage, and those jobs that do have coverage are much more likely to come with contributory retirement plans such as a 401(k). Even some public sector jobs--once the bastion of the traditional employer pensions--are seeing shifts in coverage, especially for newly hired employees.1 A natural concern is that wealth inequality has increased more than it would have in a counterfactual world in which traditional pension coverage did not decrease. In fact, that is the conclusion reached by some researchers who have looked at the distributional implications of shifting pension coverage.2 The implication of shifting pension coverage for overall wealth inequality is made even more intriguing because the wealth associated with employer-sponsored retirement plans has risen at the same time coverage was falling, from just over 20 percent of household net worth three decades ago to around 35 percent in recent years.

The net impact of shifting employer pensions on overall wealth inequality depends on how the different types of retirement wealth vary across the population, and how those retirement wealth distributions have shifted over time. Using data from the Federal Reserve's Survey of Consumer Finances (SCF) for the years 1989 through 2016, we show that traditional employer pensions and account-type retirement plan holdings are both highly concentrated at the top of the wealth distribution. The share of combined retirement assets held by the top wealth quartile was just under 80 percent in 1989, and that share increased by about 5 percentage points between 1989 and 2016. While we confirm here that trends in employer-sponsored retirement plans negatively impacted families outside the top wealth quartile, the limited effect primarily impacts families in the third quartile of the wealth distribution, who saw their share of total retirement plan wealth fall from about 15 percent to about 12 percent. The entire bottom half of the wealth distribution had a very small share of total retirement assets in 1989--only about 5 percent--and that share fell to about 3 percent by 2016.

Source link.

Federal Open Market Committee reaffirms its “Statement on Longer-Run Goals and Monetary Policy Strategy” (01.30.2019)

The Federal Open Market Committee, at its annual organizational meeting this week, unanimously reaffirmed its “Statement of Longer-Run Goals and Monetary Policy Strategy” with an updated reference to the median of participants’ estimates of the longer-run normal rate of unemployment in the most recent Summary of Economic Projections (December 2018).

The Committee first adopted the statement at its January 2012 meeting and has reaffirmed it, with appropriate revisions, at its annual organizational meetings each January.

Statement on Longer-Run Goals and Monetary Policy Strategy (PDF)

Source link.

Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization (01.30.2019)

After extensive deliberations and thorough review of experience to date, the Committee judges that it is appropriate at this time to provide additional information regarding its plans to implement monetary policy over the longer run. Additionally, the Committee is revising its earlier guidance regarding the conditions under which it could adjust the details of its balance sheet normalization program. Accordingly, all participants agreed to the following:

•The Committee intends to continue to implement monetary policy in a regime in which an ample supply of reserves ensures that control over the level of the federal funds rate and other short-term interest rates is exercised primarily through the setting of the Federal Reserve’s administered rates, and in which active management of the supply of reserves is not required.

•The Committee continues to view changes in the target range for the federal funds rate as its primary means of adjusting the stance of monetary policy. The Committee is prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments. Moreover, the Committee would be prepared to use its full range of tools, including altering the size and composition of its balance sheet, if future economic conditions were to warrant a more accommodative monetary policy than can be achieved solely by reducing the federal funds rate.

Source link.

Midwest Economy Index – Chicago Fed (01.31.2019)

The Midwest Economy Index (MEI) moved up slightly to +0.17 in December from +0.11 in November. Contributions to the December MEI from two of the four broad sectors of nonfarm business activity and three of the five Seventh Federal Reserve District states increased from November. The relative MEI rose to +0.13 in December from –0.20 in November. Contributions to the December relative MEI from all four sectors and all five states increased from November.

Source link.

Comment: Growth in the Seventh Federal Reserve District continued to slow through the end of 2018, and the data indicates that the pace decelerated from well above trend to right around trend.

Chicago Fed National Activity Index (01.28.2019)

Led by improvements in production-related indicators, the Chicago Fed National Activity Index (CFNAI) moved up slightly to +0.27 in December from +0.21 in November. Two of the four broad categories of indicators that make up the index increased from November, and two of the four categories made positive contributions to the index in December. The index's three-month moving average, CFNAI-MA3, edged up to +0.16 in December from +0.12 in November.

The CFNAI Diffusion Index, which is also a three-month moving average, edged up to +0.14 in December from +0.11 in November. Forty-six of the 85 individual indicators made positive contributions to the CFNAI in December, while 39 made negative contributions. Forty indicators improved from November to December, while 44 indicators deteriorated and one was unchanged. Of the indicators that improved, ten made negative contributions.

Source link.

Comment: The index is a weighted average of 85 indicators of national economic activity drawn from four broad categories of data: 1) production and income, 2) employment, unemployment and hours, 3) personal consumption and housing, and 4) sales, orders and inventories. A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth, negative values indicate below-average growth and positive values indicate above-average growth.

Selected federal rules – proposed

Proposed rules are included only when community banks February want to comment. Date posted February not be the same as the Federal Register Date.

Posted Date	SUMMARY OF PROPOSED RULE
02.08.2019	Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations - The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) are inviting public comment on a notice of proposed rulemaking (proposal) that would provide for a simple measure of capital adequacy for certain community banking organizations, consistent with section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. Under the proposal, most depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets, that meet risk-based qualifying criteria, and that have a community bank leverage ratio (as defined in the proposal) of greater than 9 percent would be eligible to opt into a community bank leverage ratio framework. Such banking organizations that elect to use the community bank leverage ratio and that maintain a community bank leverage ratio of greater than 9 percent would not be subject to other risk-based and leverage capital requirements and would be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act and regulations implementing that section, as applicable, and the generally applicable capital requirements under the agencies' capital rule. **Comments are due 04.19.2019.**
02.06.2019	Unsafe and Unsound Banking Practices [Brokered Deposits] - The Federal Deposit Insurance Corporation (FDIC) is undertaking a comprehensive review of the regulatory approach to brokered deposits and the interest rate caps applicable to banks that are less than well capitalized. Since the statutory brokered deposit restrictions were put in place in 1989, and amended in 1991, the financial services industry has seen significant changes in technology, business models, and products. In addition, changes to the economic environment have raised a number of issues relating to the interest rate restrictions. A key part of the FDIC's review is to seek public comment through this Advance Notice of Proposed Rulemaking (Notice) on the impact of these changes. The FDIC will carefully consider comments received in response to this Notice

in determining what actions maybe warranted. **Comments are due 05.07.2019.**

02.06.2019 Payday, Vehicle Title, and Certain High-Cost Installment Loans - The Bureau of Consumer Financial Protection has issued this final rule to create consumer protections for certain consumer credit products. The rule has two primary parts. First, for short-term and longer-term loans with balloon payments, the Bureau is identifying it as an unfair and abusive practice for a lender to make such loans without reasonably determining that consumers have the ability to repay the loans according to their terms. The rule generally requires that, before making such a loan, a lender must reasonably determine that the consumer has the ability to repay the loan. The Bureau has exempted certain short-term loans from the ability-to-repay determination prescribed in the rule if they are made with certain consumer protections. Second, for the same set of loans and for longer-term loans with an annual percentage rate greater than 36 percent that are repaid directly from the consumer's account, the rule identifies it as an unfair and abusive practice to attempt to withdraw payment from a consumer's account after two consecutive payment attempts have failed, unless the lender obtains the consumer's new and specific authorization to make further withdrawals from the account. The rule also requires lenders to provide certain notices to the consumer before attempting to withdraw payment for a covered loan from the consumer's account. On February 6, 2019, the Bureau issued two proposed rules to rescind the mandatory underwriting provisions of the rule and to delay the August 19, 2019 compliance date for those provisions to November 19, 2020. **Comments are due 05.15.2019.**

Selected federal rules – upcoming effective dates

Not all final rules are included. Only rules affecting community banks are reported, but we make no guarantees that these are all the final rules your bank needs to know about.

EFFECTIVE DATE:	SUMMARY OF FINAL RULE:
01.01.2019	Regulatory Capital Rules: Retention of Certain Existing Transition Provisions for Banking Organizations That Are Not Subject to Advanced Approaches Capital Rules. The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) are adopting a final rule to extend the regulatory capital treatment applicable during 2017 under the regulatory capital rules (capital rules) for certain items. These items include regulatory capital deductions, risk weights, and certain minority interest limitations. The relief provided under the final rule applies to banking organizations that are not subject to the capital rules' advanced approaches (non-advanced approaches banking organizations). Specifically, for these banking organizations, the final rule extends the current regulatory capital treatment of mortgage servicing assets, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, significant investments in the capital of unconsolidated financial institutions in the form of common stock, non-significant investments in the capital of unconsolidated financial institutions, significant investments in the capital of unconsolidated financial institutions that are not in the form of common stock, and common equity tier 1 minority interest, tier 1 minority interest, and total capital minority interest exceeding the capital rules' minority interest limitations. Under the final rule, advanced approaches banking organizations continue to be subject to the transition provisions established by the capital rules for the above capital items. Therefore, for advanced approaches banking organizations, their transition schedule is unchanged, and advanced approaches banking organizations are required to apply the capital rules' fully phased-in treatment for these capital items beginning January 1, 2018.
03.06.2019	Limited Exception for a Capped Amount of Reciprocal Deposits from Treatment as Brokered Deposits - The FDIC is amending its regulations that implement brokered deposits and interest rate restrictions to conform with recent changes to section 29 of the Federal Deposit Insurance Act made by section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection Act related to reciprocal deposits, which took effect on May 24, 2018. The FDIC is also making conforming amendments to the FDIC's regulations governing deposit insurance assessments.
04.01.2019	Three-Year Regulatory Capital Phase in for New Current Expected Credit Losses (CECL) - The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) are adopting a final rule to address changes to credit loss accounting under U.S. generally accepted accounting principles, including banking organizations' implementation of the current expected credit losses methodology (CECL). The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. In addition, the final rule revises the agencies' regulatory capital rule, stress testing rules, and regulatory disclosure requirements to reflect CECL, and makes conforming amendments to other regulations that reference credit loss allowances. The final rule is effective on April 1, 2019. Banking organizations may early adopt this final rule prior to that date.
07.01.2019	Loans in Areas Having Special Flood Hazards (Private Insurance) - The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), the Farm Credit Administration (FCA), and the National Credit Union Administration (NCUA) are amending their regulations regarding loans in areas having special flood hazards to implement the private flood insurance provisions of the Biggert-

Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act). Specifically, the final rule requires regulated lending institutions to accept policies that meet the statutory definition of "private flood insurance" in the Biggert-Waters Act; and permits regulated lending institutions to exercise their discretion to accept flood insurance policies issued by private insurers and plans providing flood coverage issued by mutual aid societies that do not meet the statutory definition of "private flood insurance," subject to certain restrictions.

08.19.2019 Payday, Vehicle Title, and Certain High-Cost Installment Loans - The Bureau of Consumer Financial Protection (Bureau or CFPB) is issuing this final rule establishing regulations creating consumer protections for certain consumer credit products and the official interpretations to the rule. First, the rule identifies it as an unfair and abusive practice for a lender to make covered short-term or longer-term balloon-payment loans, including payday and vehicle title loans, without reasonably determining that consumers have the ability to repay the loans according to their terms. The rule exempts certain loans from the underwriting criteria prescribed in the rule if they have specific consumer protections. Second, for the same set of loans along with certain other high-cost longer-term loans, the rule identifies it as an unfair and abusive practice to make attempts to withdraw payment from consumers' accounts after two consecutive payment attempts have failed, unless the consumer provides a new and specific authorization to do so. Finally, the rule prescribes notices to consumers before attempting to withdraw payments from their account, as well as processes and criteria for registration of information systems, for requirements to furnish and obtain information from them, and for compliance programs and record retention. The rule prohibits evasions and operates as a floor leaving State and local jurisdictions to adopt further regulatory measures (whether a usury limit or other protections) as appropriate to protect consumers. Effective Date: This regulation is effective January 16, 2018. Compliance Date: Sections 1041.2 through 1041.10, 1041.12, and 1041.13 have a compliance date of August 19, 2019. A federal court granted the Bureau of Consumer Financial Protection's request to delay the effective date of its rule on small-dollar loans. The decision delays the August 2019 compliance date.

11.24.2019 Sec. 106 of Economic Growth, Regulatory Relief, and Consumer Protection Act titled 'Eliminating barriers to jobs for loan originators.' - Section 106 allows certain state-licensed mortgage loan originators (MLOs) who are licensed in one state to temporarily work in another state while waiting for licensing approval in the new state. It also grants MLOs who move from a depository institution (where loan officers do not need to be state licensed) to a non-depository institution (where they do need to be state licensed) a grace period to complete the necessary licensing.