FDIC Advisory Committee on Community Banking

July 28, 2020

Supervision Update

FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

Loan Modifications

Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus

- Encourages institutions to work constructively with borrowers affected by COVID-19.
- Notifies institutions that the agencies will not criticize supervised institutions for prudent loan modifications.

See FIL-36-2020, issued April 7, 2020

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Loan Modifications

Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus

- Describes accounting for COVID-19 related loan modifications, including clarifying the interaction between accounting standards and the temporary relief provided by Section 4013 of the CARES Act.
- Provides supervisory views on past-due and nonaccrual regulatory reporting and regulatory capital considerations.

See FIL-36-2020, issued April 7, 2020

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Accounting for Loan Modifications

Financial institutions may elect to account for an eligible loan modification under

Section 4013 of the CARES Act	or	Interagency Statement**
Related to COVID-19		Related to COVID-19
Current as of 12/31/2019		Current at time of modification program
Executed during applicable period*		Short-term (e.g., six months)

*Applicable period: Between March 1, 2020 and **earlier** of 1) 60 days after the date of termination of the National Emergency or 2) December 31, 2020

**Interagency statement is an interpretation of ASC Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, in the context of COVID-19.

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Examination Considerations
Pandemic Impacts

Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions

- Issued to promote consistency and flexibility in the supervision and examination of institutions.
- Acknowledges that stresses caused by COVID-19 can impact financial and operational condition even when management has appropriate governance and risk management systems in place to identify, monitor, and control risk.

See FIL-64-2020, issued June 23, 2020

Examination Considerations
Pandemic Impacts

Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions

- Instructs examiners to:
  - Consider the unique, evolving, and potentially long-term nature of the issues confronting institutions and exercise flexibility in their supervisory response.
  - Assess institutions in accordance with existing policies and procedures and provide feedback, or downgrade ratings, when conditions have deteriorated.

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Examination Considerations
Pandemic Impacts

Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions

- Instructs examiners to:
  - Consider whether institution management has managed risk appropriately, including taking appropriate actions in response to the pandemic.
  - Consider the challenges involved in assessing risk in real time given the level of information available and the stage of local economic recovery.
  - Consider the institution's asset size, complexity, risk profile, and business focus of customers.

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Temporary Changes to the Community Bank Leverage Ratio Framework

- On April 23, 2020, the agencies published in the Federal Register two interim final rules that make temporary changes to the CBLR (interim final rules)
- The interim final rules take effect in the second quarter of 2020

See FIL-35-2020, issued April 6, 2020

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Temporary Changes to the Community Bank Leverage Ratio Framework

- The interim final rules make two key changes:
  - CBLR will be 8 percent beginning in the second quarter and for the remainder of calendar year 2020, 8.5 percent for calendar year 2021, and 9 percent thereafter
  - Maintains a two-quarter grace period for a qualifying community banking organization
- Implements section 4012 of the Coronavirus Aid, Relief, and Economic Security Act of 2020

See FIL-35-2020, issued April 6, 2020

Community Bank Leverage Ratio
Schedule of CBLR Requirements

Calendar Year	CBLR	Leverage Ratio under the Applicable Grace Period
2020	8 percent	7 percent
2021	8.5 percent	7.5 percent
2022	9 percent	8 percent

See FIL-35-2020, issued April 6, 2020

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Appraisals

Appraisal and Evaluation Deferral Interim Final Rule (IFR)

- The IFR defers for 120 days the agencies' appraisal and evaluation requirement for commercial and residential real estate loans (except ADC).
- Agencies provided this temporary relief to allow regulated institutions to extend financing to creditworthy borrowers quickly due to economic strains caused by COVID-19.
- These temporary provisions will expire on December 31, 2020, unless extended by the federal banking agencies.

See FIL-43-2020, issued April 14, 2020

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Appraisals

Interagency Statement on Appraisals and Evaluations for Real Estate Related Financial Transactions Affected by COVID-19

- Outlines existing flexibilities in industry appraisal standards and agencies' appraisal regulations on property inspections and appraisal exceptions.
- Describes temporary changes to Fannie Mae and Freddie Mac appraisal standards that can assist lenders during this challenging time.

See FIL-43-2020, issued April 14, 2020

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Regulatory Reporting Revisions Related to COVID-19

Call Report Revisions for June 30, 2020

- Includes revisions associated with several interim final rules and a final rule issued by one or all of the agencies in response to the impact on the financial markets and strains on the U.S. economy as a result of COVID-19.
- New data items related to these rulemakings and the CARES Act have been added to the Call Report this quarter.

See FIL-69-2020, issued July 10, 2020

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Regulatory Reporting Revisions Related to COVID-19

Call Report Revisions for June 30, 2020

- Institutions should refer to the separate standalone June 2020 COVID-19 Related Supplemental Instructions addressing these revisions.
- In addition, a number of Call Report revisions are taking effect for the June 30, 2020, report date to implement certain recent changes to the agencies' capital rule (FIL-10-2020).

See FIL-69-2020, issued July 10, 2020
See FIL-10-2020, issued February 18, 2020

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Regulatory Reporting Revisions Related to COVID-19

New items on Call Report Schedule RC-C, Part I, Loans and Leases, and Schedule RC-M, Memoranda, to collect data on:

- Eligible loan modifications under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the 2020 CARES Act, with these items collected on a confidential basis;
- U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) loans and borrowings under the Federal Reserve PPP Liquidity Facility (PPPLF); and
- Holdings of assets purchased under the Money Market Mutual Fund Liquidity Facility (MMLF).

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Interagency Guidance for Responsible Small-Dollar Loans

Interagency Lending Principles for Offering Responsible Small-Dollar Loans

- Issued May 20, 2020
- Agencies encourage institutions to offer responsible small-dollar credit products.
- Institutions should refer to the separate guidance addressing small-dollar loans to customers affected by COVID-19.

See FIL-58-2020, issued May 20, 2020
See FIL-26-2020, issued March 26, 2020

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Interagency Guidance for Responsible Small-Dollar Loans

Interagency Lending Principles for Offering Responsible Small-Dollar Loans

- Principles include:
  - Loan products are consistent with safe and sound banking, treat customers fairly, and comply with applicable laws and regulations.
  - Financial institutions effectively manage the risks associated with the products they offer, including credit, operational, and compliance.
  - Loan products are underwritten based on prudent policies and practices governing the amounts borrowed, frequency of borrowing, and repayment requirements.

See FIL-26-2020, issued March 26, 2020
See FIL-58-2020, issued May 20, 2020

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Questions?