

FDIC Advisory Committee on Community Banking

April 13, 2021

Supervision Update



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Supervision Update – Pandemic Response



FDIC Coronavirus Pandemic Response

The FDIC's timely and targeted response to the Coronavirus pandemic allowed us to fulfill our mission of maintaining stability and public confidence in the nation's financial system.



[Our Response to the Coronavirus Pandemic](#)

Encouraged Banks to Work with Affected Customers and Communities



Increased flexibility for banks to work with their customers

Issued Frequently Asked Questions for financial institutions and bank customers

Clarified that prudent efforts to modify terms of existing loans will not be subject to examiner criticism

Allowed for delayed receipt of required appraisals for certain real estate loans

Fostered Small Business Lending



Encouraged banks to use their capital and liquidity to support the US economy, small businesses, and individual households

Supported banks' participation in the Small Business Administration's Paycheck Protection Program (PPP)

Clarified that loans issued under the PPP would receive a zero risk weight for risk-based capital purposes

Approved rules to mitigate the impact of both PPP lending on banks' deposit insurance assessments and participation in the PPP Lending Facility on banks' regulatory capital ratios

Implemented Temporary Examination Procedures and Heightened Monitoring Activities



Temporarily paused examinations to allow bankers time to adapt to changing conditions, and then conducted off-site, full-scope examinations to meet statutory examination requirements

Expanded risk-monitoring of banks whose activities or concentrations may present additional concerns due to the economic consequences of the pandemic

Safety And
Soundness

1,301 Exams
Completed

BSA

1,324 Exams
Completed

Information
Technology

1,291 Exams
Completed

Specialty*

292 Exams
Completed

4,208
Exams
Completed

From March 16, 2020 – March 15, 2021

*Specialty examination areas include Trust, Government Securities Dealer, Municipal Securities Dealer, and Transfer Agent

Enhanced Communication Efforts



Engaged in increased industry outreach through webinars, banker roundtables, and podcasts

Increased frequency of communication with banking organizations, state and federal regulatory agencies, and trade associations

Issued guidelines outlining the FDIC's supervisory response to the pandemic

Created alternative procedures for internal and external communication channels, including virtual meetings and electronic workflows

Regulatory Response

March 2020

- *FDIC Announces Steps to Protect Banks and Consumers and to Continue Operations
- *Statement on the Use of Capital and Liquidity Buffers
- *Interim Final Rules: Eligible Retained Income and Money Market Mutual Fund Liquidity Facility

April 2020

- *Interagency Statement on Loan Modifications for Customers Impacted by the Pandemic
- *Webinar on the above Statement
- *Temporary Modifications to the Community Bank Leverage Ratio
- *Neutralized Effects of PPP Loans and PPP Lending Exposures on Risk-Based Capital Ratios

May 2020

- *FAQs for Financial Institutions Impacted by the COVID-19 Pandemic
- *Temporary Changes to the Supplementary Leverage Ratio
- *Modified the Liquidity Coverage Ratio

June 2020

- *Interagency Guidance on Safety & Soundness Assessments in Light of the Pandemic
- *Neutralized impact on Deposit Insurance Assessment stemming from participation in the PPP, PPPL, and Money Market Mutual Fund Facility

August 2020

- *FFIEC Statement on Additional Loan Accommodations
- *Modifications to the Community Bank Leverage Ratio Framework
- *Webinar: PPP Loan Forgiveness and Changes to the PPP Program

September 2020

- *Webinar to Discuss Economic Impact Payments and Promote Access to Affordable Bank Accounts

October 2020

- *Interim Final Rule to Provide Temporary Relief from Part 363 Audit and Reporting Requirements

November 2020

- *Interim Final Rule to Temporarily Change Asset Thresholds for Certain Rules

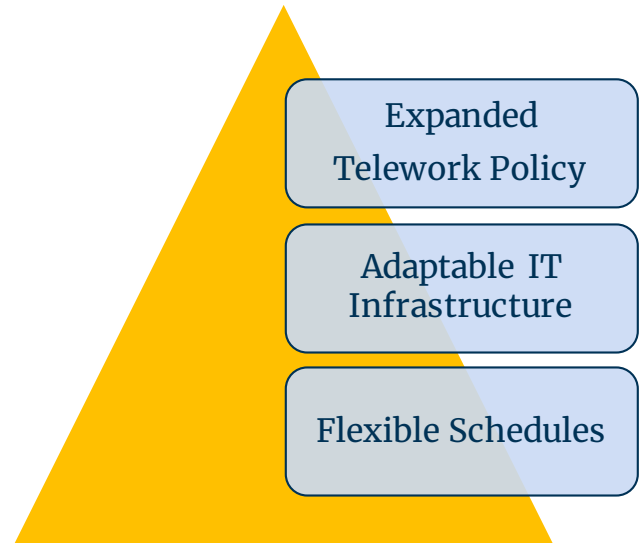
Resources

- <https://www.fdic.gov/coronavirus/>
- [Frequently Asked Questions for Financial Institutions Affected by the Coronavirus Disease 2019](#)
- [Coronavirus \(COVID-19\) Information for Small Business Lenders](#)
- [FIL-36-2020: Revised Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus](#)
- [FDIC Issues Final Rule to Mitigate the Deposit Insurance Assessment Effect of Participation in the Paycheck Protection Program \(PPP\), the PPP Liquidity Facility, and the Money Market Mutual Fund Liquidity Facility](#)
- [FDIC Approves Interim Final Rule to Provide Temporary Relief from Part 363 Audit and Reporting Requirements](#)
- [FIL-27-2020: Temporary Alternative Procedures for Sending Supervision-Related Mail and Email to the FDIC](#)

Operational Response to the Pandemic

Leveraged Telework

- Moved workforce to remote work in a quick and efficient manner
- Ensured all employees were equipped for mobile work
- Maintained IT systems and remote capabilities with minimal disturbance to staff
- Implemented flexible work schedules



Contingency Operating Strategies

Offered examination staff a leave buyback option

Hired additional entry-level staff

Rehired retired annuitants in offices with significant training responsibilities

Initiated a number of continuity planning protocols

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Supervision Update – Brokered Deposit and Interest Rate Risk Restrictions



Brokered Deposits and Interest Rate Restrictions



On December 15, 2020, the FDIC finalized revisions to its regulations relating to brokered deposits and interest rate restrictions that apply to less than well-capitalized insured depository institutions (IDIs).

The revisions became effective on April 1, 2021, with a full compliance date of January 1, 2022.

Changes Related to Brokered Deposits

What is a Deposit Broker?

Any person engaged in the business of placing deposits or of facilitating the placement of deposits of third parties with IDIs

An agent or trustee who establishes a deposit account to use the proceeds of the account to fund a prearranged loan

Any person placing deposits with IDIs to sell those deposits or interest in those deposits to third parties

Any IDI that is less than well capitalized, and any employee of any such IDI, that solicits deposits by offering rates of interest significantly higher than rates offered by other IDIs in the IDI's normal market area

Changes Related to Brokered Deposits

Placing Deposits

If the person, while engaged in business, receives third-party funds and deposits those funds at more than one IDI



A person with an exclusive deposit placement arrangement with one IDI does not meet the “deposit broker” definition

Facilitating the Placement of Deposits

For deposits placed at more than one IDI, if the person, while engaged in business:

- Has legal authority to close the account or move the third party’s funds to another IDI;
- Is involved in negotiating or setting rates, fees, terms, or conditions for the deposit account; or
- Engages in matchmaking services

Changes Related to Brokered Deposits

Primary Purpose Exception



Must File Notice with the FDIC

25% of Assets:

Less than 25% of the total assets that the agent or nominee has under administration for its customers are deposited in IDIs

Enabling Transactions:

100% of depositors' funds that the agent or nominee places at IDIs are in transaction accounts, and no fees, interest, or other remuneration is provided to the depositor

Changes Related to Brokered Deposits

Primary Purpose Exception



No Notice Required

Property management services

Collateral securing credit card loans

Cross-border clearing services

Programs to pay for qualified medical expenses

Mortgage servicing

529 Plans

Real estate transaction services

Tax-advantaged retirement programs

1031 exchanges

Programs for government beneficiaries

Certain reserve accounts

Other relationships the FDIC recognizes for primary purpose exceptions

Changes Related to Interest Rate Restrictions

National Rate

Average of rates paid by all IDIs and insured credit unions on a given deposit product, weighted by market share of domestic deposits



National Rate Cap

The higher of:

- The national rate plus 75 basis points, or
- For maturity deposits: 120% of the current yield on similar maturity U.S. Treasury obligations, plus 75 basis points, or
- For any nonmaturity deposit: the federal funds rate plus 75 basis points

Changes Related to Interest Rate Restrictions

Local Rate Cap



An IDI no longer has to receive a high rate area determination or calculate average rates in its local market area.

The local market rate cap is 90% of the highest interest rate on a particular deposit product offered within the IDI's local market area.

- An IDI's local market area is any readily defined geographical market area in which the IDI accepts or solicits deposits.
- An IDI shall notify the FDIC of the highest rate paid in its local market area and update calculations monthly.

Changes Related to Interest Rate Restrictions

If an institution seeks to offer a product with a maturity for which the FDIC does not publish the national rate cap or that is not offered by another institution within its local market area, the IDI must use the rate offered on the next lower on-tenor maturity of that product.

On-tenor Maturities:	1-month	24-months
	3-months	36-months
	6-months	48-months
	12-months	60-months

Off-tenor Maturities: All other term periods

Off-Tenor Deposit Products



Changes Related to Interest Rate Restrictions

Reminder: A well capitalized IDI may pay interest on deposits without restriction.



A well capitalized IDI is not subject to the restrictions imposed by §337.6 or §337.7

Changes Related to Nonmaturity Deposits

A less than well capitalized IDI may not solicit deposits by offering a rate above its rate caps or accept brokered deposits.

Solicit Nonmaturity Deposit

- Open a nonmaturity account
- Raise the rate paid on a nonmaturity account existing when the IDI was last well capitalized
- Credit funds for a new depositor to a nonmaturity account existing when the IDI was last well capitalized

Changes Related to Nonmaturity Deposits

A less than well capitalized IDI may not solicit deposits by offering a rate above its rate caps or accept brokered deposits.

Accepts Nonmaturity Brokered Deposit

- From a particular deposit broker:
 - When opening a new nonmaturity account
 - When the account balance exceeds the account balance at the time the institution declined to less than well capitalized
- For agency or nominee accounts, when the IDI credits any fund for a new depositor to a nonmaturity account

Changes Related to Nonmaturity Deposits

A less than well capitalized IDI with a waiver to accept brokered deposits may not pay interest in excess of the applicable rate cap on:

- From a particular deposit broker:
 - Any new nonmaturity accounts
 - Any amount of funds that exceed the account balance at the time the institution fell to less than well capitalized
- For agency or nominee accounts, any funds for a new depositor

Resources

- [FIL-113-2020: Combined Final Rule on Brokered Deposits and Interest Rate Restrictions](#)
- [FIL-14-2021: Industry Webinar on Final Rule Revising Brokered Deposits and Interest Rate Restrictions](#)
- [Final Rule: Brokered Deposits and Interest Rate Restrictions](#)
- [Fact Sheet on Brokered Deposits](#)
- [Fact Sheet on Interest Rate Restrictions](#)
- [FIL-23-2021: Webpage with Information on the Brokered Deposits Regulation including Instructions for Filing Requirements under the Primary Purpose Exception](#)

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Supervision Update – Consumer Compliance



Streamlined Report of Examination



Pilot for Low-Risk Financial Institutions
(May 1, 2021 – June 30, 2021)

Examination Efficiency and Timely Turnaround

First Pilot Phase Feedback – Overall Positive

Examination Process Remains the Same

Written Report Format is Streamlined

Streamlined Report of Examination



Eligibility Criteria Include:

Consumer Compliance Ratings of 1 or 2,
and Satisfactory or Higher CRA

No Level 3 Violations, and no UDAP,
RESPA Section 8, or Discriminatory Violations

No Repeat Level 2 Violations

No Civil Money Penalties

No Restitution of \$1,000 or More

Other Criteria

Streamlined Report of Examination



Report Format

Cover

Brief Compliance Management System (CMS) Description

Violations Pages (if applicable)

Transmittal Letter

2 to 3 Pages

Streamlined Report of Examination



Feedback



Banker Feedback

Strongly encouraged and
appreciated

Other Related Project



Standard Report of Examination

Reviewing current format to
ensure most effective
communication of exam findings

Questions

