Bankers Ask Regulators For Help - Part 1

regulatory performance business customers pandemic

Summary: We recently asked community bankers for their top three regulatory concerns with COVID-19. Today is the first of a two-part series highlighting these paramount issues.

While it is April Fool's Day today, we are not fooling you on some of the latest regulatory developments.

The coronavirus crisis has created lots of questions. So, on March 22nd, we asked community bankers for their top three concerns with COVID-19 that regulators could help them address. We received hundreds of responses, which we sent to the regulatory agencies promptly, so they could hear directly from community bankers. Today, we wanted to start summarizing the feedback in a two-part series. Look for part two tomorrow.

There are many thoughts on how to assist borrowers including, loan modifications, deferred payments, and increased liquidity as well as concerns about how to manage CECL, BSA/AML, and examinations. Bankers are looking to the regulators to determine what and how they can do this. Guidance has been coming and we expect it to continue coming as this is uncharted territory. Here is what the bankers are asking for and what the regulators have provided so far.

Deposit Insurance on Noninterest Bearing Accounts - Some bankers are seeing a run on deposits as people panic during the uncertainty. Many suggested bringing back the Transaction Account Guarantee (TAG) Program, as businesses with uninsured deposits are looking for more options. Having unlimited FDIC insurance would provide the assurance that the market needs right now.

Lending / TDRs - Many bankers note that customers were asking for payment deferral and modifications early on. Since the cause of these actions is outside of the borrowers' control, the hope is that it doesn't trigger troubled debt restructuring (TDR) and the associated additional reporting and reputation issues.

The March 22nd Interagency Statement on loan modifications was very timely as it addressed TDR. The Statement notes that where loans were prudently underwritten, "short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs."

Examinations - Since bankers are dealing with contingency planning and addressing the immediate needs of their customers, many of them requested a suspension of exams at this time, especially for those that are well-capitalized and/or have a history of good standing with the regulators. Even off-site exams put a strain on operations and the somewhat limited bank staff.

On March 24th, the Federal Reserve announced through an updated Statement of Supervisory Activities that "for supervised institutions with assets less than $100B, the Federal Reserve intends to defer a significant portion of planned examination activity based on its assessment of the burden on the institution and the importance of the exam activity to the supervisory understanding of the firm, consumer protection, or financial stability." This flexibility will allow many FIs to focus more directly on their customers and supporting their communities. We are grateful for the help that regulators have provided so quickly.

SUPPORT DURING COVID-19

We understand it is hard to keep track of all the information out there on the coronavirus. For the most important resources at your fingertips, visit our COVID-19 Resource Center.