Top 5 Areas Of Regulatory Focus For 2021

regulatory lending CECL risk management

Summary: As we welcome in the new year, there are several regulatory areas to pay extra attention to. We cover COVID-19 flexibility, CECL implementation efforts, the LIBOR transition, CRA changes, and more.

According to one source, there are a million bubbles in a champagne flute. That sounds like a lot. But, if that is true, many of us have had our fill of a few million champagne bubbles to usher in a new year and a fresh start.

To start off right, we wanted to bring you some regulatory areas to focus on for 2021. While this is just a partial list, we hope it will get you on the right track.

1. **COVID-19 flexibility.** Regulators will likely continue to give leeway for underwriting decisions on loans to struggling businesses that were thriving before the pandemic. "For FY 2021, supervision efforts will be flexible to recognize the broad and bank-specific impacts of the pandemic and resulting economic, financial, operational and compliance implications," states the Office of the Comptroller of the Currency. Make sure that you have all processes captured and documentation detailed for these loans.
2. **CECL is not forgotten.** Despite the uncertainty with the pandemic, during your 2021 examination, regulators will look to see how far along you are on the road to implementing the Current Expected Credit Losses (CECL) accounting standard. Along these lines, regulators will take a fresh look at concentration levels within loan portfolios, particularly for businesses especially hard hit by the pandemic. Financial institutions (FI) will need to demonstrate that they have adequately assessed the concentration risk and are appropriately managing it.
3. **LIBOR transition within sights.** Regulators in November reminded institutions to prepare for the discontinuation of the London Interbank Offered Rate (LIBOR). Examiners will be looking to see whether institutions are including an alternative referencing rate in new contracts, or providing fallback language that includes a clearly defined reference rate for use after LIBOR is discontinued. For more information, read "SOFR Takes the Spotlight As LIBOR's Days Are Numbered."
4. **CRA modernization.** In November, the OCC issued a proposal for a new approach in determining CRA evaluation benchmarks and community development minimums for general performance standards. The OCC said that it would survey banks to help set these new measurement levels and account for differences in institution sizes and business models. Watch for updates in the coming months on this topic.
5. **Ongoing focus.** Regulators will also continue to monitor FIs' AML/BSA compliance, as well as cybersecurity risk management practices -- especially around new threats stemming from the pandemic. Indeed, within the first quarter of 2020, digital attack rates rose by 20% from the prior quarter, and payment attacks increased by 49% in comparison with the end of 2019, according to Arkose Labs. No wonder this is an area of scrutiny. Make sure you are covered!

While this is just a short list of 2021 regulatory areas of interest, it will surely get you started. Check back for more regulatory updates throughout the year.

GOODBYE TO BANK NEWS STORIES IN 2021

With the plethora of news alerts coming to you constantly, we are saying goodbye to our BID Bank News Stories after 20Ys. 2021 brings new changes, so stay tuned on how we will continue to provide you with insightful content that informs your daily decisions.

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