Regulatory Dispatch

Timely news and resources community bankers can use

to better stay on top of a rapidly changing world.

FDIC Insured Institutions Reported Net Income of $64.4 Billion in Second Quarter 2022

- Net Income Declined Year Over Year
- Net Interest Margin Widened
- Loan Growth Was Broad-Based
- Credit Quality Remained Favorable Despite Growth in Early Delinquencies
- Total Deposits Declined Moderately for the First Time Since Second Quarter 2018
- Community Banks Reported a Moderate Decline in Net Income

WASHINGTON— Reports from 4,771 commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reflect aggregate net income of $64.4 billion in second quarter 2022, a decline of $6.0 billion (8.5 percent) from a year ago. An increase in provision expense drove the annual reduction in net income. These and other financial results for second quarter 2022 are included in the FDIC's latest Quarterly Banking Profile released today.

…

Community Banks Reported a Decline in Net Income From the Year-Ago Quarter: Community banks reported a decline in net income of $523.0 million (6.5 percent) from the year-ago quarter, resulting from higher noninterest expense, lower noninterest income, losses on the sale of securities, and higher provisions for credit losses. Most of the 4,333 FDIC-insured community banks (52.0 percent) reported lower quarterly net income compared with the year-ago quarter. Net income, however, increased $583.6 million (8.4 percent) from first quarter 2022.

Net interest income for community banks rose $1.9 billion (9.6 percent) to $21.4 billion from the year-ago quarter due primarily to an increase in "other real estate loan income" (up $929.4 million, or 10.5 percent) and income from investment securities (up $937.5 million, or 45.4 percent).1 Interest expense declined $181.8 million (or 9.3 percent). Net interest income also increased from first quarter 2022 (up $1.9 billion, or 9.6 percent). Provisions for credit losses rose $533.4 million (739.7 percent) from the year-ago quarter and $318.7 million (110.4 percent) from the previous quarter to $607.4 million. 2

The net interest margin for community banks widened 8 basis points from the year-ago quarter to 3.33 percent. This was the largest quarterly increase since second quarter 1985.

Comment: In his remarks, FDIC Acting Chairman Martin Gruenberg said "Despite several favorable performance metrics in the second quarter, the banking industry continues to face significant downside risks. These risks include the effects of high inflation, rapidly rising market interest rates, and continued geopolitical uncertainty. Taken together, these risks may reduce profitability, weaken credit quality and capital, and limit loan growth in coming quarters. Furthermore, higher market

interest rates have led to continued growth in unrealized losses in the banking industry's securities portfolios. Higher interest rates may also erode real estate and other asset values as well as hamper borrowers' loan repayment ability. These will be matters of ongoing supervisory attention by the FDIC."

Community Banker Q&A

Q. We had a case of identity theft that resulted in the withdrawal of cash just over $10,000 at two branches. These transactions were conducted in person, but the accountholder proved they were out of town and had no involvement in the withdrawals. A bank employee verified that the person who conducted the transactions was not the accountholder. We have no ID on the person who conducted the transaction other than the fake information on the accountholder. Do we file a CTR? Do we file a SAR?

A. If the accountholder neither authorized the transaction (it was not on their behalf) nor benefitted from the transaction, they are not liable for the transactions.

It is difficult to see how a CTR could be filed. Both *Section A – Person(s) on Whose Behalf Transaction(s) Is Conducted* and *Section B – Individual(s) Conducting Transaction(s) (if other than above)* would essentially be blank. The transactions were not conducted on the accountholders behalf, and you have no information on who actually did conduct the transactions.

Although it is less than the $25,000 threshold when a suspect can be identified, in cases involving identity theft banks are encouraged to file regardless of the amount. The narrative should make it clear that the accountholder did not benefit and was not involved in the transaction and therefore no CTR was filed.

…snip

Dollar Amount Thresholds – Banks are required to file a SAR in the following circumstances: insider abuse involving any amount; transactions aggregating $5,000 or more where a suspect can be identified; transactions aggregating $25,000 or more regardless of potential suspects; and transactions aggregating $5,000 or more that involve potential money laundering or violations of the BSA. It is recognized, however, that with respect to instances of possible terrorism, identity theft, and computer intrusions, the dollar thresholds for filing may not always be met. Financial institutions are encouraged to file nonetheless in appropriate situations involving these matters, based on the potential harm that such crimes can produce. Even when the dollar thresholds of the regulations are not met, financial institutions have the discretion to file a SAR and are protected by the safe harbor provided for in the statute.

Source link.

Items of Interest

Bank Management

	FRB The Economic Outlook: Time to Let the Data Do the Talking - Governor Christopher J. Waller (09/09/2022) - *My subject today is the outlook for the U.S. economy and the Federal*

	Reserve's ongoing campaign to bring down inflation and achieve our 2 percent objective.1 There are three takeaways from my speech today. First, inflation is far too high, and it is too soon to say whether inflation is moving meaningfully and persistently downward. The Federal Open Market Committee (FOMC) is committed to undertake actions to bring inflation back down to our 2 percent target. This is a fight we cannot, and will not, walk away from. The second takeaway is that the fears of a recession starting in the first half of this year have faded away and the robust U.S. labor market is giving us the flexibility to be aggressive in our fight against inflation. For that reason, I support continued increases in the FOMC's policy rate and, based on what I know today, I support a significant increase at our next meeting on September 20 and 21 to get the policy rate to a setting that is clearly restricting demand. The final takeaway is that I believe forward guidance is becoming less useful at this stage of the tightening cycle. Future decisions on the size of additional rate increases and the destination for the policy rate in this cycle should be solely determined by the incoming data and their implications for economic activity, employment, and inflation. *Based on all of the data that we have received since the FOMC's last meeting, I believe the policy decision at our next meeting will be straightforward. Because of the strong labor market, right now there is no tradeoff between the Fed's employment and inflation objectives, so we will continue to aggressively fight inflation. Inflation is widespread, driven by strong demand that has only begun to moderate, by an ongoing lag in labor force participation, and by supply chain problems that may be improving in some areas but are still considerable. For these reasons, I expect it will take some time before inflation moves back to our 2 percent goal, and that the FOMC will be tightening policy into 2023. But the answers to questions of "how high?" and "for how long?" will depend solely on incoming data.* To continue reading, click here. ***Comment: Nothing new here from Gov. Waller. Back in July, he stated "Based on my forecast for the economy, I expect monetary policy to be restrictive until there has been a sustained reduction in core personal consumption expenditure (PCE) inflation, which excludes food and energy."***
	FRB Bringing Inflation Down - Vice Chair Lael Brainard (09/07/2022) - *Over the past year, inflation has been very high in the United States and around the world (figure 1). High inflation imposes costs on all households, and especially low-income households. The multiple waves of the pandemic, combined with Russia's war against Ukraine, unleashed a series of supply shocks hitting goods, labor, and commodities that, in combination with strong demand, have contributed to ongoing high inflation. With a series of inflationary supply shocks, it is especially important to guard against the risk that households and businesses could start to expect inflation to remain above 2 percent in the longer run, which would make it much more challenging to bring inflation back down to our target. The Federal Reserve is taking action to keep inflation expectations anchored and bring inflation back to 2 percent over time.* *While last year's rapid pace of economic growth was boosted by accommodative fiscal and monetary policy as well as reopening, demand has moderated this year as those tailwinds*

	have abated. A sizable fiscal drag on output growth alongside a sharp tightening in financial conditions has contributed to a slowing in activity. In the first half of 2022, real gross domestic product (GDP) declined outright, overall real consumer spending grew at just one-fourth of its 2021 pace, and residential investment, a particularly interest-sensitive sector, declined by 8 percent (figure 2). *The concentration of strong consumer spending in supply-constrained sectors has contributed to high inflation. Consumer spending is in the midst of an ongoing but still incomplete rotation back toward pre-pandemic patterns. Real spending on goods has declined modestly in each of the past two quarters, while real spending on services has expanded at about half its 2021 growth rate. Even so, the level of goods spending remains 5 percent above the level implied by its pre-pandemic trend, while services spending remains 4 percent below its trend (figure 3).* To keep reading, click here.
	OCC Information Security: Expectations for Protecting Non-public OCC Information on Institution- or Other Non-OCC-Owned or Managed Video Teleconferencing Services (09/07/2022) - The Office of the Comptroller of the Currency (OCC) is issuing this bulletin to explain the OCC's expectations for protecting non-public OCC information, as defined in 12 CFR 4.32(b)(1), shared on video teleconferencing services that are operated or managed by an institution1 or any other party. Video teleconferencing (VTC) services provide collaboration capabilities that allow communication via internet-enabled text, voice, and video and can allow the sharing of files and other content. VTC services are a key enabler for OCC supervisory activities. This bulletin describes the security provisions designed to protect non-public OCC information from disclosure that need to be in place for OCC personnel to join meetings hosted on institution- or other non-OCC-operated or managed VTC services in which such information is expected to be communicated. Note for Community Banks This bulletin applies to community banks. Highlights This bulletin explains • legal requirements for protecting non-public OCC information. • how VTC services can be secured to prevent disclosure of non-public OCC information. • types of non-public OCC information affected by this bulletin. • the OCC's requirements for protecting non-public OCC information. ***Comment: The OCC reminded banks and other parties that posses non-public OCC information are prohibited from disclosing it without the OCC's prior approval "except in very limited circumstances." This prohibition extends to disclosing OCC information "displayed, processed, stored, or transmitted by institution or other non-OCC information systems, including VTC [video teleconferencing] services."***

	FRB Beige Book (09/07/2022) - Overall Economic Activity Economic activity was unchanged, on balance, since early July, with five Districts reporting slight to modest growth in activity and five others reporting slight to modest softening. Most Districts reported steady consumer spending as households continued to trade down and to shift spending away from discretionary goods and toward food and other essential items. Auto sales remained muted across most Districts, reflecting limited inventories and elevated prices. Hospitality and tourism contacts highlighted overall solid leisure travel activity with some reporting an uptick in business and group travel. Manufacturing activity grew in several Districts, although there were some reports of declining output as supply chain disruptions and labor shortages continued to hamper production. Despite some reports of strong leasing activity, residential real estate conditions weakened noticeably as home sales fell in all twelve Districts and residential construction remained constrained by input shortages. Commercial real estate activity softened, particularly demand for office space. Loan demand was mixed; while financial institutions reported generally strong demand for credit cards and commercial and industrial loans, residential loan demand was weak amid elevated mortgage interest rates. Nonfinancial services firms experienced stable to slightly higher demand. Demand for transportation services was mixed and reports on agriculture conditions across reporting Districts varied. While demand for energy products was robust, production remained constrained by supply chain bottlenecks for critical components. The outlook for future economic growth remained generally weak, with contacts noting expectations for further softening of demand over the next six to twelve months. Labor Markets Employment rose at a modest to moderate pace in most Districts. Overall labor market conditions remained tight, although nearly all Districts highlighted some improvement in labor availability, particularly among manufacturing, construction, and financial services contacts. Moreover, employers noted improved worker retention, on balance. Wages grew across all Districts, although reports of a slower pace of increase and moderating salary expectations were widespread. Employers in several Districts reported giving midyear and off-cycle raises to offset higher living costs, and many noted that offering bonuses, flexible work arrangements, and comprehensive benefits were deemed necessary to attract and retain workers. Looking ahead, employers planned to provide end-of-year pay raises to their workers, but expectations for the pace of wage growth varied across industries and Districts. Prices Price levels remained highly elevated, but nine Districts reported some degree of moderation in their rate of increase. Substantial price increases were reported across all Districts, particularly for food, rent, utilities, and hospitality services. While manufacturing and construction input costs remained elevated, lower fuel prices and cooling overall demand alleviated cost pressures, especially freight shipping rates. Several Districts reported some tapering in prices for steel, lumber, and copper. Most contacts expected price pressures to persist at least through the end of the year. …

Federal Reserve Bank of Dallas

Summary of Economic Activity
Growth in the Eleventh District economy continued at a modest pace, though job growth was quite robust. Manufacturing and service sector activity continued to slow, growing at a diminished clip from earlier this year. Retail sales were flat to down, and homes sales remained relatively subdued. Loan demand continued to increase but at a markedly slower pace. Local nonprofits reported increased demand for rent and food assistance amid rising costs. The energy sector expanded further while ongoing drought resulted in significantly lower crop production and culling of livestock herds. Wage growth remained highly elevated due to a tight labor market. Supply chain bottlenecks have begun easing and prices were not rising as fast, though inflation is still high. Outlooks were mixed as uncertainty remained elevated, and contacts voiced concern about slowing demand and the risk of a recession stemming from high prices, weakening consumer sentiment, and rising interest rates.

OCC Acting Comptroller Discusses Safeguarding Trust in Banking (09/07/2022) - WASHINGTON—Acting Comptroller of the Currency Michael J. Hsu today discussed the long-term threats to trust in banking in remarks at the TCH + BPI Annual Conference in New York. His comments also included updates on his priorities of guarding against complacency, addressing inequality, adapting to digitalization, and managing climate-related risk in the federal banking system.

Related Links
Remarks (PDF)

Comment: Acting Comptroller Hsu noted that "…coordination among all financial regulators will also be needed in the future to ensure a level playing field and limit regulatory arbitrage and to keep shadow banking at a safe distance from the regulated financial system. These goals cannot be achieved if the financial regulatory agencies, including state banking supervisors, do not work together. Public trust in bank regulators will rise or fall depending on our ability to do so."

OCC Releases Strategic Plan for Fiscal Years 2023-2027 (09/06/2022) - WASHINGTON—The Office of the Comptroller of the Currency (OCC) today released its strategic plan for fiscal years (FY) 2023-2027.

The strategic plan outlines the agency's approach to achieve three strategic goals and fulfill its mission to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

The OCC will invest in its people, operations, processes and technology to meet its strategic goals for FY 2023-2027 that focus on

	• Agility and learning • Credibility and trust • Leading on supervision as the banking system evolves Related Link Strategic Plan for Fiscal Years 2023-2027 (PDF)
	CSBS Community Bank Sentiment Index Joins FRED (09/06/2022) - Washington, D.C. – The Conference of State Bank Supervisors (CSBS) is pleased to share that its Community Bank Sentiment Index (CBSI) has been added to the Federal Reserve Economic Data, the online database maintained by the Federal Reserve Bank of St. Louis informally known as the FRED. The FRED includes economic data time series from a range of sources. Data from the FRED plays a key role in financial markets. "Adding the CBSI to FRED will provide researchers, policymakers and the public access to a unique survey that offers insights into how community bankers think about future economic and business conditions," said CSBS Chief Economist Tom Siems. "The ability to evaluate the CBSI and its seven components and analyze them against other data series on FRED will help users improve their understanding of the economy and financial sector." CSBS created the quarterly CBSI in 2019 to survey the future looking economic outlook of community bankers across the nation. The diffusion index is derived from responses to seven survey questions designed to indicate the direction of change in business conditions, monetary policy, regulatory burden, capital spending, operations expansion, profitability and franchise value. ***Comment: About the CSBS Sentiment Index "The Community Bank Sentiment Index is an index derived from quarterly polling of community bankers across the nation. As community bankers answer questions about their outlook on the economy, their answers are analyzed and compiled into a single number. An index reading of 100 indicates a neutral sentiment, while anything above 100 indicates a positive sentiment, and anything below 100 indicates negative sentiment."***

BSA / AML

	FinCEN Prepared Remarks of FinCEN Acting Deputy Director Jimmy Kirby During the 2022 Federal Identity Forum & Exposition (FedID) (09/07/2022) - *Good morning. My name is Jimmy Kirby, and I'm the Acting Deputy Director of the Financial Crimes Enforcement Network (FinCEN).* *It's a real pleasure to address all of you—private sector, academia and fellow public sector attendees and speakers.*

I'm grateful for the opportunity to speak at FedID today, particularly as this event brings together identity experts from both the public and private sectors to discuss this important issue. This conference's needs analysis, collaboration, and strategic planning are vital to spurring innovation and building blocks to ensure reliable interactions in an increasingly digital world.

I would like to explain how FedID and its focus on digital identity, a building block for reliable financial services, fit into the broader FinCEN picture.

We're focused on a range of important topics at FinCEN, including:

- *Emerging threats;*
- *Responsible innovation; and*
- *Expanding partnerships and feedback loops.*

To keep reading, click here.

Comment: Many FinTech companies have been focused on expanding and developing revenue streams and product offerings rather than BSA/AML responsibilities and that could put putting their community bank partners at risk. This year's AML conference in October includes a breakout session specifically targeting risks related to FinTech entities such as client verification, high-speed transactions and the evolving regulatory landscapes.

Deposit / Retail Operations

FRB Test Your Knowledge for Spotting Synthetic Identities (09/07/2022) - Can You Spot the Synthetic Identities?

Synthetic identity fraud is difficult to detect because the synthetics created by fraudsters can appear to be real people and customers. The Federal Reserve's Synthetic Identity Fraud Mitigation Toolkit offers a variety of quick, interactive assessments to test your abilities at identifying synthetic identities.

Review sample scenarios to spot the potential synthetics in customer account applications.
Click to Spot the Synthetics in Account Applications

Try to identify the synthetics at different stages of a customer account relationship, including at the account opening, within a portfolio and in post-loss analyses.
Click to Spot the Synthetics at Different Stages of the Relationship

Human Resources

Lending

	FRB Consumer Credit - G.19 (09/08/2022) - July 2022 - In July, consumer credit increased at a seasonally adjusted annual rate of 6.2 percent. Revolving credit increased at an annual rate of 11.6 percent, while nonrevolving credit increased at an annual rate of 4.4 percent.
	OCC Releases CRA Evaluations for 31 National Banks and Federal Savings Associations (09/07/2022) - WASHINGTON — The Office of the Comptroller of the Currency (OCC) today released a list of Community Reinvestment Act (CRA) performance evaluations that became public during the period of August 1, 2022, through August 31, 2022. The list contains only national banks, federal savings associations, and insured federal branches of foreign banks that have received ratings. The possible ratings are outstanding, satisfactory, needs to improve, and substantial noncompliance. Of the 31 evaluations made public this month, 20 are rated satisfactory, and eleven are rated outstanding. A list of this month's evaluations is available here. Click on the institution's charter number to view a pdf of the evaluation. The OCC's website (https://www.occ.gov) also offers access to a searchable list of all public CRA evaluations. Copies of the evaluations may also be obtained by submitting a request electronically through the OCC's Freedom of Information Act (FOIA) website https://foia-pal.occ.gov/palMain.aspx or by writing to the Office of the Comptroller of the Currency, Communications Division, Suite 3E-218, Washington, DC 20219. When requests are made electronically, remember to include your postal mail address.
	FFIEC Updates to the Filing Instructions Guide (FIG) and Supplemental Guide for Quarterly Filers for Data Collected in 2022 (09/07/2022) - The FFIEC HMDA website has been recently updated. – The updated Filing Instructions Guide (FIG) for data collected in 2022 is now available, released by the CFPB. – The updated Supplemental Guide for Quarterly Filers for data collected in 2022 is now available, released by the CFPB. ***Comment: Make sure staff responsible for collecting and reporting HMDA data get the updated FIG for 2022.***

Technology / Security

	CISA Welcomes Input on New Cyber Incident Reporting Requirements (0909/2022) - WASHINGTON – Today, the Cybersecurity and Infrastructure Security Agency (CISA) announced their plans to issue a Request for Information (RFI) soliciting public input on

	approaches to implementing the cyber incident reporting requirements, pursuant to the Cyber Incident Reporting for Critical Infrastructure Act of 2022 (CIRCIA), which President Biden signed into law in March 2022. The RFI will publish in the Federal Register on Monday, September 12 and provide the public with 60 days to provide their written submissions. CIRCIA requires CISA to develop and publish a Notice of Proposed Rulemaking (NPRM) for public comment and review, containing proposed regulations for cyber incident and ransom payment reporting. The RFI solicits input from the critical infrastructure community and other members of the public, and that input will inform the agency's development of the proposed regulations. Timely cyber incident reporting allows CISA to rapidly deploy resources and render assistance to victims suffering attacks, identify emerging threats and trends, and quickly share threat information with federal partners and network defenders to take protective action and warn other potential victims. "The Cyber Incident Reporting for Critical Infrastructure Act of 2022 is a game changer for the whole cybersecurity community and everyone invested in protecting our nation's critical infrastructure. It will allow us to better understand the threats we are facing, to spot adversary campaigns earlier, and to take more coordinated action with our public and private sector partners in response," said CISA Director Jen Easterly. "We can't defend what we don't know about and the information we receive will help us fill critical information gaps that will inform the guidance we share with the entire community, ultimately better defending the nation against cyber threats. We look forward to continuing to learn from the critical infrastructure community – through our request for information and our coast-to-coast listening sessions – to understand how we can implement the new cyber incident reporting legislation in the most effective way possible to protect the nation's critical infrastructure."

Selected federal rules – proposed

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

PROPOSED RULE WITH REQUEST FOR PUBLIC COMMENT

08.02.2022 Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts - The Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), and National Credit Union Administration (NCUA) (the agencies), in consultation with state bank and credit union regulators, are inviting comment on an updated policy statement for prudent commercial real estate loan accommodations and workouts, which would be relevant to all financial institutions supervised by the agencies. This updated policy statement would build on existing guidance on the need for financial institutions to work prudently and constructively with creditworthy borrowers during times of financial stress, update existing interagency guidance on commercial real estate loan workouts, and add a new section on short-term loan accommodations. The updated statement also would address relevant accounting changes on estimating loan losses and provide updated examples of how to classify and account for loans modified or affected by loan accommodations or loan workout activity. **DATES: Comments must be received by October 3, 2022.**