March 24, 2020

Critical Regulatory Assistance for Community Bankers During COVID-19

We recently received feedback from hundreds of you on your top three concerns about the impact of the coronavirus crisis and the immediate actions many of you indicated were areas where immediate regulatory assistance was needed. We appreciate your feedback and have shared it with the regulators, so that they could hear directly from community bankers on your most critical areas of concern.

The regulatory agencies have provided many updated statements regarding COVID-19 over the past couple of weeks, some of which address your concerns. The regulators provided us information to share with you highlighting initiatives and links to key regulatory statements. Additionally, as regulatory guidance continues, we will provide you with these updates. We would also strongly advise all community bankers to check the press release and regulatory updates areas of your primary regulator's website every day in order to keep track of all of these fast moving changes and stay informed.

1 – Pause Exam Work

Hot off the press, the Fed announced today that they are pausing examination work in community banks for the next 30 days and extending the time to respond to non-critical supervisory findings. Here's the announcement. The FDIC may be something similar, so stay tuned.

[The] Federal Reserve provides additional information to financial institutions on how its supervisory approach is adjusting in light of the coronavirus

https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200324a.htm

The Federal Reserve Board on Tuesday provided additional information to financial institutions on how its supervisory approach is adjusting in light of the coronavirus.

In particular:

- The Federal Reserve will focus on monitoring and outreach to help financial institutions of all sizes understand the challenges and risks of the current environment;
- To minimize disruption and to focus on outreach and monitoring, the Federal Reserve will temporarily reduce its examination activities, with the greatest reduction in activities occurring at the smallest banks;
- Large banks should still submit their capital plans that they have developed as part of the Board's Comprehensive Capital Analysis and Review, or CCAR, by April 6. The plans will be used to monitor how firms are managing their capital in the current environment; and
- To allow firms to focus on heightened risks in this current environment and assist consumers, additional time will be granted for resolving non-critical existing supervisory findings.

The Board recognizes that the current situation is significantly affecting areas of the country in different ways and will work with financial institutions to understand the specific issues they are facing.

2 – Loan Modification Guidance

Last week and again over the weekend, the FDIC released an interagency Statement and 2 FAQs on loan modifications.

Agencies provide additional information to encourage financial institutions to work with borrowers affected by COVID-19

https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200322a.htm

The Statement:

The federal financial institution regulatory agencies and the state banking regulators issued an interagency statement encouraging financial institutions to work constructively with borrowers affected by COVID-19 and providing additional information regarding loan modifications.

The agencies encourage financial institutions to work with borrowers, will not criticize institutions for doing so in a safe and sound manner, and will not direct supervised institutions to automatically categorize loan modifications as troubled debt restructurings (TDRs). The joint statement also provides supervisory views on past-due and nonaccrual regulatory reporting of loan modification programs.

The agencies view prudent loan modification programs offered to financial institution customers affected by COVID-19 as positive and proactive actions that can manage or mitigate adverse impacts on borrowers, and lead to improved loan performance and reduced credit risk.

The statement reminds institutions that not all modifications of loan terms result in a TDR.

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. This includes short-term—for example, six months—modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant.

The agencies' examiners will exercise judgment in reviewing loan modifications, including TDRs, and will not automatically adversely risk rate credits that are affected, including those considered TDRs. Regardless of whether modifications are considered TDRs or are adversely classified, agency examiners will not criticize prudent efforts to modify terms on existing loans for affected customers.

FDIC Issues FAQs for Financial Institutions and Consumers Affected by the Coronavirus

https://www.fdic.gov/news/news/financial/2020/fil20018.pdf

The FDIC understands that financial institutions and consumers may have questions about the potential impact of the Coronavirus Disease 2019 (referred to as COVID-19). In response, the FDIC is providing two sets of frequently asked questions (FAQs), one for financial institutions and one for consumers. The FAQs address a variety of issues that may arise as financial institutions work with customers and communities affected by COVID-19. The FDIC recognizes that such efforts can be accomplished in a manner that is consistent with safe and sound banking practices, compliant with applicable laws (including consumer protection laws), and in the public interest. The FDIC will continue to add FAQs to the initial list, as needed, to address additional questions and issues that arise

PCBB®

3 – Discount Window

The Fed has taken a number of actions to encourage the use of the discount window as a liquidity management tool that were initially announced on March 16th. In summary:

- We are encouraging firms to use the discount window and have made changes to the program to encourage usage.
- Borrowing from the discount window is now available up to 90 days, and this borrowing receives favorable treatment in the LCR. Borrowing term from the discount window can be used to improve the LCR.
- Statement says that bank supervisors acknowledge that discount window usage is being encouraged by policy makers, and support its usage. Also says that in no way will discount window usage be seen as a reflection of imprudent liquidity risk management.

The initial discount window statement and highlights from a follow-up statement from the Fed regarding increased usage of the window are below.

Actions to Support the Flow of Credit to Households and Businesses:
https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm

Discount Window
The Federal Reserve encourages depository institutions to turn to the discount window to help meet demands for credit from households and businesses at this time. In support of this goal, the Board today announced that it will lower the primary credit rate by 150 basis points to 0.25 percent, effective March 16, 2020. This reduction in the primary credit rate reflects both the 100 basis point reduction in the target range for the federal funds rate and a 50 basis point narrowing in the primary credit rate relative to the top of the target range.

To further enhance the role of the discount window as a tool for banks in addressing potential funding pressures, the Board also announced that depository institutions may borrow from the discount window for periods as long as 90 days, prepayable and renewable by the borrower on a daily basis. The Federal Reserve continues to accept the same broad range of collateral for discount window loans.

Intraday Credit
The Federal Reserve encourages depository institutions to utilize intraday credit extended by Reserve Banks, on both a collateralized and uncollateralized basis, to support the provision of liquidity to households and businesses and the general smooth functioning of payment systems.

Federal Reserve Board encouraged by increase in discount window borrowing to support the flow of credit to households and businesses: https://www.federalreserve.gov/newsevents/pressreleases/monetary20200319c.htm

The Federal Reserve Board is encouraged by the notable increase in discount window borrowing this week with banks demonstrating a willingness to use the discount window as a source of funding to support the flow of credit to households and businesses.

This uptick follows the recent changes to the discount window announced by the Federal Reserve and the federal banking regulators' recent statement encouraging financial institutions to use the discount window. In that statement, the Federal Reserve and other federal regulatory agencies underscored the role of the discount window.

By providing ready access to funding, the discount window helps depository institutions manage their liquidity risks efficiently and avoid actions that have negative consequences for their customers, such as withdrawing credit during times of market stress. The Federal Reserve welcomes continued use of the discount window by banks to help them channel credit to households and businesses.

4 – Capital and Liquidity Buffers

The announcement released on March 16th about the discount window also included an encouragement to use capital and liquidity buffers. The Fed followed that with an FAQ regarding the use of the buffers.

Actions to Support the Flow of Credit to Households and Businesses:
https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm

Bank Capital and Liquidity Buffers
The Federal Reserve is encouraging banks to use their capital and liquidity buffers as they lend to households and businesses who are affected by the coronavirus. Since the global financial crisis of 2007-2008, U.S. bank holding companies have built up substantial levels of capital and liquidity in excess of regulatory minimums and buffers. These capital and liquidity buffers are designed to support the economy in adverse situations and allow banks to continue to serve households and businesses. The Federal Reserve supports firms that choose to use their capital and liquidity buffers to lend and undertake other supportive actions in a safe and sound manner.

SR letter 20-5, "Questions and Answers (Q&As) on Statement Regarding the Use of Capital and Liquidity Buffers," has been issued.

The Q&As respond to public inquiries from banking organizations regarding the use of their capital and liquidity buffers, and the application of the Board's total loss-absorbing capacity rule. The agencies developed these Q&As to provide further information on the March 17, 2020, Joint Statement on Statement on the Use of Capital and Liquidity Buffers.

Pubweb link to SR letter: https://www.federalreserve.gov/supervisionreg/srletters/sr2005.htm

Pubweb link to March 17, 2020 press release:
https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200317a.htm

5 – Soundness of the Banking Industry – FDIC Insured Deposits Are Safe

The FDIC issued a statement last week about the safety of bank deposits to further assist bankers.

FDIC: Insured Bank Deposits are Safe; Beware of Potential Scams Using the Agency's Name
https://www.fdic.gov/news/news/press/2020/pr20032.html

In light of recent developments related to the coronavirus, the Federal Deposit Insurance Corporation (FDIC) is reminding Americans that FDIC-insured banks remain the safest place to keep their money. The FDIC is also warning consumers of recent scams where imposters are pretending to be agency representatives to perpetrate fraudulent schemes.

Since 1933, no depositor has ever lost a penny of FDIC-insured funds. Today, the FDIC insures up to $250,000 per depositor per FDIC-insured bank. An FDIC-insured account is the safest place for consumers to keep their money. Learn more about deposit insurance here. Some banks may have adjusted hours or services in compliance with Centers for Disease Control guidance on social distancing. Customers' deposits remain safe in these banks, as does customer access to their funds. Banks continue to offer ATM, mobile, or online banking services, and many continue to provide services via drive-through windows.

Related FAQs https://www.fdic.gov/coronavirus/faq-customer.pdf

6 – Main Street Lending Program

In a much broader announcement the Fed announced multiple new facilities designed to support the banking industry. The Federal Reserve **expects to announce soon the establishment of a Main Street Business Lending Program** to support lending to eligible small-and-medium sized businesses, complementing efforts by the SBA. Additional details on how this new program will be structured are expected in the near future.

Federal Reserve announces extensive new measures to support the economy

https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm

The Federal Reserve is committed to using its full range of tools to support households, businesses, and the U.S. economy overall in this challenging time. The coronavirus pandemic is causing tremendous hardship across the United States and around the world. Our nation's first priority is to care for those afflicted and to limit the further spread of the virus. While great uncertainty remains, it has become clear that our economy will face severe disruptions. Aggressive efforts must be taken across the public and private sectors to limit the losses to jobs and incomes and to promote a swift recovery once the disruptions abate.

The Federal Reserve's role is guided by its mandate from Congress to promote maximum employment and stable prices, along with its responsibilities to promote the stability of the financial system. In support of these goals, the Federal Reserve is using its full range of authorities to provide powerful support for the flow of credit to American families and businesses. These actions include:

- Support for critical market functioning. The Federal Open Market Committee (FOMC) will purchase Treasury securities and agency mortgage-backed securities in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy. The FOMC had previously announced it would purchase at least $500 billion of Treasury securities and at least $200 billion of mortgage-backed securities. In addition, the **FOMC will include purchases of agency commercial mortgage-backed securities in its agency mortgage-backed security purchases.**

- Supporting the flow of credit to employers, consumers, and businesses by establishing new programs that, taken together, will provide up to $300 billion in new financing. The Department of the Treasury, using the Exchange Stabilization Fund (ESF), will provide $30 billion in equity to these facilities.
- Establishment of two facilities to support credit to large employers – the **Primary Market Corporate Credit Facility (PMCCF)** for new bond and loan issuance and the **Secondary Market Corporate Credit Facility (SMCCF)** to provide liquidity for outstanding corporate bonds.
- Establishment of a third facility, the **Term Asset-Backed Securities Loan Facility (TALF)**, to support the flow of credit to consumers and businesses. The TALF will enable the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets.
- Facilitating the flow of credit to municipalities by **expanding the Money Market Mutual Fund Liquidity Facility (MMLF)** to include a wider range of securities, including municipal variable rate demand notes (VRDNs) and bank certificates of deposit.
- Facilitating the flow of credit to municipalities by **expanding the Commercial Paper Funding Facility (CPFF)** to include high-quality, tax-exempt commercial paper as eligible securities. In addition, the pricing of the facility has been reduced.

In addition to the steps above, the Federal Reserve **expects to announce soon the establishment of a Main Street Business Lending Program** to support lending to eligible small-and-medium sized businesses, complementing efforts by the SBA.

The PMCCF will allow companies access to credit so that they are better able to maintain business operations and capacity during the period of dislocations related to the pandemic. This facility is open to investment grade companies and will provide bridge financing of four years. Borrowers may elect to defer interest and principal payments during the first six months of the loan, extendable at the Federal Reserve's discretion, in order to have additional cash on hand that can be used to pay employees and suppliers. The Federal Reserve will finance a special purpose vehicle (SPV) to make loans from the PMCCF to companies. The Treasury, using the ESF, will make an equity investment in the SPV.

The SMCCF will purchase in the secondary market corporate bonds issued by investment grade U.S. companies and U.S.-listed exchange-traded funds whose investment objective is to provide broad exposure to the market for U.S. investment grade corporate bonds. Treasury, using the ESF, will make an equity investment in the SPV established by the Federal Reserve for this facility.

Under the TALF, the Federal Reserve will lend on a non-recourse basis to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. The Federal Reserve will lend an amount equal to the market value of the ABS less a haircut and will be secured at all times by the ABS. Treasury, using the ESF, will also make an equity investment in the SPV established by the Federal Reserve for this facility. The TALF, PMCCF and SMCCF are established by the Federal Reserve under the authority of Section 13(3) of the Federal Reserve Act, with approval of the Treasury Secretary.

These actions augment the measures taken by the Federal Reserve over the past week to support the flow of credit to households and businesses. These include:

- The establishment of the CPFF, the MMLF, and the Primary Dealer Credit Facility;
- The expansion of central bank liquidity swap lines;
- Steps to enhance the availability and ease terms for borrowing at the discount window;
- The elimination of reserve requirements;
- Guidance encouraging banks to be flexible with customers experiencing financial challenges related to the coronavirus and to utilize their liquidity and capital buffers in doing so;
- Statements encouraging the use of daylight credit at the Federal Reserve.

Taken together, these actions will provide support to a wide range of markets and institutions, thereby supporting the flow of credit in the economy.

The Federal Reserve will continue to use it full range of tools to support the flow of credit to households and businesses and thereby promote its maximum employment and price stability goals.