



Community Bankers of Michigan Regulatory Dispatch

April 27, 2022

Timely news and resources community bankers can use

to better stay on top of a rapidly changing world.

Inflation Overtakes Cyberattacks and Regulation as Community Bankers' Top Concern

With inflation hitting a 41-year high at 8.5% from a year earlier (according to the headline consumer price index), it comes as little surprise that [inflation is community bankers' top concern in the first quarter 2022](#) survey used to compute the CSBS community bank sentiment index (CBSI). As shown in the nearby chart, community banker concerns about inflation topped the list of anxieties that includes government regulation, cyberattacks and the cost and availability of labor.

Comment: Comment: In a recent [article](#) in the Independent Banker magazine, the top 3 cybersecurity challenges for community banks were 1) ransomware challenges; 2) insider threats; and 3) increased need for real-time data visibility.

CBM Insights

Q: What documentation is needed to share video/camera footage with the local police if they come and ask to see video or request a copy? Do they need to bring us something?

A: This request is not covered by the federal Right to Financial Privacy Act (which covers federal agency requests).

There is an exception in GLBA 15 USC 6802(e) for certain requests. Here is the explicit language:

(8) to comply with Federal, State, or local laws, rules, and other applicable legal requirements; to comply with a properly authorized civil, criminal, or regulatory investigation or subpoena or summons by Federal, State, or local authorities; or to respond to judicial process or government regulatory authorities having jurisdiction over the financial institution for examination, compliance, or other purposes as authorized by law.

Source [link](#).

Note that this exception requires a proper subpoena.

Arguably, the definition of "nonpublic personal information" (which is very broad) includes the information derived from the video surveillance footage.

The prudent thing to do is to request a subpoena. Also, that will help law enforcement avoid any attempt to prevent information from the video surveillance footage from being used in a trial.

Items of Interest

Bank Management

FRB [Beige Book](#) (04/20/2022) - Summary of Commentary on Current Economic Conditions by Federal Reserve District

Commonly known as the Beige Book, this report is published eight times per year. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts, and other sources. The Beige Book summarizes this information by District and sector. An overall summary of the twelve district reports is prepared by a designated Federal Reserve Bank on a rotating basis. This report was prepared at the Federal Reserve Bank of Minneapolis based on information collected on or before April 11, 2022. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

- [Federal Reserve Bank of Boston](#)
- [Federal Reserve Bank of New York](#)
- [Federal Reserve Bank of Philadelphia](#)
- [Federal Reserve Bank of Cleveland](#)
- [Federal Reserve Bank of Richmond](#)
- [Federal Reserve Bank of Atlanta](#)
- [Federal Reserve Bank of Chicago](#)
- [Federal Reserve Bank of St. Louis](#)
- [Federal Reserve Bank of Minneapolis](#)
- [Federal Reserve Bank of Kansas City](#)
- [Federal Reserve Bank of Dallas](#)
- [Federal Reserve Bank of San Francisco](#)

Overall Economic Activity

Economic activity expanded at a moderate pace since mid-February. Several Districts reported moderate employment gains despite hiring and retention challenges in the labor market. Consumer spending accelerated among retail and non-financial service firms, as COVID-19 cases tapered across the country. Manufacturing activity was solid overall across most Districts, but supply chain backlogs, labor market tightness, and elevated input costs continued to pose challenges on firms' abilities to meet demand. Vehicle sales remained largely constrained by low inventories. Commercial real estate activity accelerated modestly as office occupancy and retail activity increased. Districts' contacts reported continued strong demand for residential real estate but limited supply. Agricultural conditions were mixed across regions. Farmers were supported by surging crop prices, but drought conditions were a challenge in some Districts and increasing input costs were squeezing producer margins across the nation. Outlooks for future growth were clouded by the uncertainty created by recent geopolitical developments and rising prices.

Labor Markets

Employment increased at a moderate pace. Demand for workers continued to be strong across most Districts and industry sectors. But hiring was held back by the overall lack of available workers, though several Districts reported signs of modest improvement in

worker availability. Many firms reported significant turnover as workers left for higher wages and more flexible job schedules. Persistent labor demand continued to fuel strong wage growth, particularly for footloose workers willing to change jobs. Firms reported that inflationary pressures were also contributing to higher wages, and that higher wages were doing little to alleviate widespread job vacancies. But some contacts reported early signs that the strong pace of wage growth had begun to slow.

Prices

Inflationary pressures remained strong since the last report, with firms continuing to pass swiftly rising input costs through to customers. Contacts across Districts, particularly those in manufacturing, noted steep increases in raw materials, transportation, and labor costs. In multiple Districts, contacts reported spikes in prices for energy, metals, and agricultural commodities following the Russian invasion of Ukraine, and several noted that COVID-19 lockdowns in China had worsened supply chain disruptions. A few reports noted that input suppliers were making use of more flexible contract terms or only honoring price quotes for 24 hours. Strong demand generally allowed firms to pass through input cost increases to customers, for example, via fuel surcharges for freight and airline fares. However, contacts in a few Districts noted negative sales impacts from rising prices. Firms in most Districts expected inflationary pressures to continue over the coming months.

[CFPB Releases Report on Financial Challenges Facing Rural Communities](#) (04/19/2022) –

The Consumer Financial Protection Bureau (CFPB) issued a report on the challenges faced by Americans in rural communities. The report highlights that many of these communities lack access to physical bank branches, are more likely to seek credit from nonbanks, and are heavily affected by medical bills. The CFPB will be expanding its efforts to address these and other challenges facing the people and families of rural America.

“For decades, many government agencies have turned a blind eye to pressing problems facing families, farmers, and businesses in rural communities,” said CFPB Director Rohit Chopra. “The CFPB will be focusing on ways to ensure that rural communities can better access relationship banking services and achieve their economic potential.”

The data snapshot provides a summary of economic challenges facing rural people and communities. Among its key findings:

Rural Americans depend on physical bank branches and smaller banks. In 2019, nearly 9-in-10 rural households visited a bank branch. Rural banking customers tell the CFPB that given the unique qualities of rural economies, if they are reduced to a number and fed into a large bank’s algorithm, their credit needs will not be met. However, these same customers are the ones most likely to not live within 10-miles of a bank with in-person services.

Rural Americans are less likely to have a credit history and more likely to use non-bank credit, resulting in rural consumers paying more for credit. Compared to the rest of the country, rural areas have the highest rates of people without a usable credit history maintained by one of the three nationwide consumer reporting agencies (i.e. Equifax, Experian, and TransUnion). Rural consumers without credit records have more difficulty accessing credit when they need it, such as to fill short term income gaps, recover from weather emergencies, or seek new opportunities. Many rural consumers who have difficulty accessing traditional sources of credit may turn to pawnshops and payday lenders, whose extensions of credit are often costlier and can quickly put consumers on treadmills of increasing debt.

Unpaid medical bills are affecting access to credit, housing, and employment. Almost 1-in-5 U.S. households have allegedly past-due medical bills, which can unfairly, and adversely, affect credit reports and limit access to credit, housing, and employment. According to a recent study by the CFPB, Medical Debt Burden in the United States, unpaid medical bills are more common in the Southeastern and Southwestern U.S., which also have significant rural populations. Additionally, healthcare and insurance costs tend to be highest in rural communities, compared to urban and suburban communities, which leads to more expensive medical bills and charges.

Comment: Meanwhile, the CFPB continues to attack overdraft programs—a source of credit that is readily (and cheaply) available to rural customers.

BSA / AML

OCC [Issues Consent Order Against Anchorage Digital Bank](#) (04/21/2022) - WASHINGTON— The Office of the Comptroller of the Currency (OCC) issued a Consent Order against Anchorage Digital Bank, Sioux Falls, S.D.

The OCC took this action based on the bank's failure to adopt and implement a compliance program that adequately covers the required Bank Secrecy Act/anti-money laundering (BSA/AML) program elements.

"The OCC holds all nationally chartered banks to the same high standards, whether they engage in traditional or novel activities," said Acting Comptroller of the Currency Michael J. Hsu. "When institutions fall short, we will take action and hold them accountable to ensure compliance with federal laws and regulations."

In January of 2021, the OCC granted conditional approval of the conversion of Anchorage Trust Company, a South Dakota chartered trust company, to become Anchorage Digital Bank, National Association. As an enforceable condition of approval, the company entered into an operating agreement which set forth, among other things, BSA/AML requirements. The bank did not meet the BSA/AML requirements under the operating agreement and, as a result violated the operating agreement and BSA/AML-related laws and regulations, which are the basis of the enforcement action.

Related Link

[Consent Order \(PDF\)](#)

Comment: Digital banks are not too cool for school. The OCC's actions send a clear message that regulated entities offering emerging technology financial services must adhere to the same BSA/AML monitoring and reporting requirements as more traditionally regulated entities.

Deposit / Retail Operations

No news to report this week.

Human Resources

No news to report this week.

Lending

OCC [Acting Comptroller Discusses Expanding Access to Homeownership for Minorities](#) (04/19/2022) - WASHINGTON—Acting Comptroller of the Currency Michael J. Hsu discussed expanding access to homeownership for minorities at the Black Homeownership Collaborative's Fair Housing Month Virtual Forum. In his remarks, Acting Comptroller Hsu discussed initiatives such as reducing appraisal bias, Project REACH, and an interagency effort to strengthen the Community Reinvestment Act to expand fair access and homeownership opportunities for minorities, low- and moderate-income areas, and communities of color.

Related Links

[Remarks \(PDF\)](#)

[Project REACH](#)

[Acting Comptroller of the Currency Michael J. Hsu](#)

Technology / Security

CISA [FBI, NSA, and International Partners Issue Advisory on Demonstrated Threats and Capabilities of Russian State-Sponsored and Cyber Criminal Actors](#) (04/20/2022) - WASHINGTON – The Cybersecurity and Infrastructure Security Agency (CISA), along with the Federal Bureau of Investigation (FBI), National Security Agency (NSA), Australian Cyber Security Centre (ACSC), Canadian Centre for Cyber Security (CCCS), National Cyber Security Centre New Zealand (NZ NCSC), and the United Kingdom's National Cyber Security Centre (NCSC-UK) and National Crime Agency (NCA), with contributions from industry members of the Joint Cyber Defense Collaborative, issued a joint Cybersecurity Advisory on Russian state-sponsored and criminal cyber threats to critical infrastructure that could impact organizations both within and beyond Ukraine.

It is the most comprehensive view of the cyber threat posed by Russia to critical infrastructure released by government cyber experts since the invasion of Ukraine in February.

The advisory provides technical details on malicious cyber operations by actors from the Russian Federal Security Service (FSB), Russian Foreign Intelligence Service (SVR), Russian General Staff Main Intelligence Directorate (GRU), and Russian Ministry of Defense, Central Scientific Institute of Chemistry and Mechanics (TsNIIKhM). It also includes details on Russian-aligned cyber threat groups and cybercrime groups. Some of these cybercrime groups have recently publicly pledged support for the Russian government and have threatened to conduct cyber operations in retaliation for perceived cyber offensives against Russia or against countries or organizations providing materiel support to Ukraine.

The advisory recommends several immediate actions for all organizations to take to protect their networks, which include:

- Prioritize patching of known exploited vulnerabilities;
- Enforce multifactor authentication;
- Monitor remote desktop protocol (RDP); and
- Provide end-user awareness and training

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

03.25.2022 [FDIC Request for Information on Bank Merger Act](#) - The Federal Deposit Insurance Corporation sent for publication in the Federal Register a Request for Information (RFI) seeking information and comments regarding the application of the laws, practices, rules, regulations, guidance, and statements of policy (together, regulatory framework) that apply to merger transactions involving one or more insured depository institution, including the merger between an insured depository institution and a noninsured institution. **Dates: Comments are due May 31, 2022.**

03.22.2021 [Rules to Enhance and Standardize Climate-Related Disclosures for Investors](#) - The Securities and Exchange Commission proposed rule changes that would require registrants to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements. The required information about climate-related risks also would include disclosure of a registrant's greenhouse gas emissions, which have become a commonly used metric to assess a registrant's exposure to such risks. The proposing release will be published on SEC.gov and in the Federal Register. **DATES: Comments should be received on or before May 20, 2022.**