Community Bankers of Michigan Regulatory Dispatch

June 15, 2022

Timely news and resources community bankers can use

to better stay on top of a rapidly changing world.

FRB Announces it Will Soon Release Second Tool to Help Community Financial Institutions Implement the Current Expected Credit Losses (CECL) Accounting Standard

The Federal Reserve announced it will release a second tool to help community financial institutions implement the Current Expected Credit Losses, or CECL, accounting standard.

Known as the Expected Losses Estimator, or ELE, the spreadsheet-based tool utilizes a financial institution's loan-level data and management assumptions to aid community financial institutions in calculating their CECL allowances.

"The Fed's unique approach in providing CECL compliance tools for small banks, through SCALE and today's introduction of the ELE tool for more complex small banks, continue our work to tailor supervisory approaches to fit the size, risk and business model of financial institutions. I am confident these tools will assist our smaller banks enabling them to prioritize serving the financial needs of their communities and customers," said Governor Miki Bowman.

The ELE tool will be launched during an "Ask the Fed" webinar on June 16, 2022. The session is intended for community financial institutions. Registration information is available at www.askthefed.org. The ELE tool will be available via www.supervisionoutreach.org/cecl.

The launch of the ELE tool builds on the Federal Reserve's previous release of the Scaled CECL Allowance for Losses Estimator, or SCALE, tool to also help community financial institutions implement the CECL accounting standard. Together, the ELE and SCALE tools provide two simplified approaches to CECL calculations for smaller community financial institutions.

Comment: The FASB pushed back the effective date of CECL from January 2021 to January 2023 for smaller reporting companies as defined by the Securities and Exchange Commission (SEC) and from January 2022 to January 2023 for nonpublic companies.

CBM Insights

Q: We have a commercial construction loan (commercial building being constructed on raw land) where the entire property is in a flood zone. So yes, flood insurance is required, but do you know at what point the insurance would be required? After foundation is poured, walls and roof are up?

A: Question number 22 (now Construction 4) in the FAQs was recently 'tweaked' and addresses the issue of construction loans and when coverage is required. For additional agency thoughts, it is worth reading the Final Rule that updated the FAQs and the actual question.

Construction 4. The Agencies proposed to redesignate existing Q&A 22 as Q&A Construction 4. This Q&A addresses when a lender must require the purchase of flood insurance for a loan secured by a building in the course of construction that is located in an SFHA in which flood insurance is available. As in existing Q&A 22, the proposed answer provides that a lender may either require borrowers to have a flood insurance policy in place at the time of loan origination or allow a borrower to defer the purchase of flood insurance until either after a foundation slab has been poured and/or an Elevation Certificate has been issued or, if the building to be constructed will have its lowest floor below the Base Flood Elevation, when the building is walled and roofed. However, when flood insurance is deferred, the lender must require the borrower to have flood insurance in place before the lender disburses funds to pay for building construction (except as necessary to pour the slab or perform preliminary site work, such as laying utilities, clearing brush, or the purchase and/or delivery of building materials).

The Agencies proposed to revise the answer to incorporate waiver of the NFIP's removal of the 30-day waiting period and to provide other clarifications. In particular, the Agencies proposed that if a lender requires a borrower to have flood insurance in place at the time of loan origination, a borrower should obtain a provisional rating based on the construction designs and intended use of the building to enable the placement of coverage prior to receipt of the Elevation Certificate (EC), based on FEMA guidance. The proposed Q&A further stated that accordance with the NFIP requirement, it is expected that an EC will be secured and a full risk rating completed within 60 days of the policy effective date. Under the proposed Q&A, failure to obtain the EC could result in reduced coverage limits at the time of loss. If the lender allows the borrower to defer the purchase of flood insurance, the lender should have adequate controls in place to ensure the borrower obtains flood insurance no later than 30 days prior to disbursement of funds to the borrower in light of the NFIP 30 day waiting period requirement, instead of no later than when the foundation slab has been poured and/or an EC has been issued as under existing Q&A 22.

CONSTRUCTION 4. When must a lender require the purchase of flood insurance for a loan secured by a building in the course of construction that is located in an SFHA in which flood insurance is available?

Under the Act, as implemented by the Regulation, a lender may not make, increase, extend, or renew any loan secured by a building or a mobile home, located or to be located in an SFHA in which flood insurance is available, unless the property is covered by adequate flood insurance for the term of the loan. <u>The NFIP provides that lenders may comply with the mandatory purchase requirement for a loan secured by a building in the course of construction that is located in an SFHA by requiring borrowers to have a flood insurance policy in place at the time of loan origination.</u> Such a policy is issued based upon the construction designs and intended use of the building. A borrower should obtain a provisional rating (available only if certain criteria are met) to enable the placement of coverage prior to receipt of the Elevation Certificate (EC). In accordance with the NFIP requirement, it is expected that an EC will be secured and a full risk rating completed within 60 days of the policy effective date. Failure to obtain the EC could result in reduced coverage limits at the time of a loss Insurance Manual).

<u>Alternatively, a lender may allow a borrower to defer the purchase of flood insurance until either after a foundation slab has been poured and/or an Elevation Certificate has been issued or, if the building to be constructed will have its lowest floor below the Base Flood Elevation, when the building is walled and roofed. However, in order to comply with the Regulation, the lender must require the borrower to have flood insurance for the security property in place before the lender disburses funds to pay for building construction (except for funds to be used to pour the slab or perform preliminary site work, such as laying utilities, clearing brush, or the purchase and/or delivery of building materials).</u> If the lender elects this approach and does not require the borrower to obtain flood insurance at loan origination, then it should have adequate internal controls in place at origination to ensure that the borrower obtains flood insurance no later than 30 days prior to disbursement of funds to the borrower in light of the NFIP 30-day waiting period requirement. (See NFIP Flood Insurance Manual). See also Q&A Construction 5.

Source link.

Items of Interest

Bank Management

	OCC Acting Comptroller Discusses Importance of CDFIs, MDIs (06/09/2022) - WASHINGTON — Acting Comptroller of the Currency Michael J. Hsu discussed the importance of community development financial institutions (CDFI) and minority depository institutions (MDI) at the 2022 Community Development Bankers Association Peer Forum. In his remarks, the Acting Comptroller highlighted initiatives to revitalize MDIs and increase investments in CDFIs, and the Office of the Comptroller of the Currency's efforts to support underserved communities. Related Links Remarks (PDF)
	CSBS National Survey of Community Banks is Open (06/07/2022) - Washington, D.C. – The Conference of State Bank Supervisors and state bank regulators encourage community banks to participate in its ninth annual National Survey of Community Banks, which is open through July 12. This year's questions focus on current bank conditions and emerging issues, including technology and inflation, product service design and offerings and the future of community banking. The survey will take about 20 minutes to complete. Participating community banks will need to provide their FDIC certificate number, but all information collected is for research purposes only and will not be linked to any institution. Survey results will be released at the tenth annual Community Banking Research Conference, sponsored by CSBS, the Federal Reserve and the FDIC. Last year's survey of nearly 500 community banks showed that as the pandemic lingered, they experienced historic levels of deposits and narrow net interest margins. The pandemic, increasing technology costs and cybersecurity concerns were top issues. ***Comment: The 2021 survey of nearly 500 community bankers nationwide focused on lingering pandemic concerns and loan demand. No doubt the focus will shift to consumer confidence and inflation.***

BSA / AML

	No news to report this week.

Deposit / Retail Operations

	No news to report this week.

Human Resources

IRS Increases Mileage Rate for Remainder of 2022 (06/09/2022) - WASHINGTON — The Internal Revenue Service announced an increase in the optional standard mileage rate for the final 6 months of 2022. Taxpayers may use the optional standard mileage rates to calculate the deductible costs of operating an automobile for business and certain other purposes.

For the final 6 months of 2022, the standard mileage rate for business travel will be 62.5 cents per mile, up 4 cents from the rate effective at the start of the year. The new rate for deductible medical or moving expenses (available for active-duty members of the military) will be 22 cents for the remainder of 2022, up 4 cents from the rate effective at the start of 2022. These new rates become effective July 1, 2022. The IRS provided legal guidance on the new rates in Announcement 2022-13, issued today.

In recognition of recent gasoline price increases, the IRS made this special adjustment for the final months of 2022. The IRS normally updates the mileage rates once a year in the fall for the next calendar year. For travel from Jan. 1 through June 30, 2022, taxpayers should use the rates set forth in Notice 2022-03.

"The IRS is adjusting the standard mileage rates to better reflect the recent increase in fuel prices," said IRS Commissioner Chuck Rettig. "We are aware a number of unusual factors have come into play involving fuel costs, and we are taking this special step to help taxpayers, businesses and others who use this rate."

While fuel costs are a significant factor in the mileage figure, other items enter into the calculation of mileage rates, such as depreciation and insurance and other fixed and variable costs.

The optional business standard mileage rate is used to compute the deductible costs of operating an automobile for business use in lieu of tracking actual costs. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for mileage.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

The 14 cents per mile rate for charitable organizations remains unchanged as it is set by statute.

Midyear increases in the optional mileage rates are rare, the last time the IRS made such an increase was in 2011.

Comment: In summation, due to current high gas prices, the Internal Revenue Service (IRS) announced June 9 that it would increase the optional standard mileage rate for the final 6 months of 2022 from 58.5 cents per mile to 62.5 cents per mile for business mileage. The new rate is effective July 1, 2022, through Dec. 31, 2022.

Lending

	FRB Consumer Credit - G.19 (06/07/2022) - Notes about the Data Beginning with the April 2022 G.19 Consumer Credit release, published on June 7, 2022, the release will no longer report the Commercial Bank Interest Rates for 48-month New Car Loans. Instead, the release will report the Commercial Bank Interest Rates for 72-month New Car Loans. For more information, please see the announcement posted on March 7, 2022. April 2022 In April, consumer credit increased at a seasonally adjusted annual rate of 10.1 percent. Revolving credit increased at an annual rate of 19.6 percent, while nonrevolving credit increased at an annual rate of 7.1 percent. ***Comment: The level of consumer confidence will be an important factor that determines the willingness of consumers to spend, borrow and save – key drivers of the economy. A high level of consumer confidence will encourage a higher marginal propensity to consume. A fall in levels of consumer confidence is often an indicator of an economic downturn. Since the issuance of this report using April data, inflation in general and specifically gas prices, have eroded consumer confidence.***

Technology / Security

	No news to report this week.

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

05.05.2022 Joint Agency Community Reinvestment Act - The Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) propose to amend their regulations implementing the Community Reinvestment Act of 1977 (CRA) to update how CRA activities qualify for consideration, where CRA activities are considered, and how CRA activities are evaluated. **DATE: Comments must be received on or before August 5, 2022.**

03.22.2021 Rules to Enhance and Standardize Climate-Related Disclosures for Investors - The Securities and Exchange Commission today 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 June 17, 2022 (the comment period was extended on Monday, May 9th.)**