BANKING & FINANCE

Bank Regulation Updates, Upcoming Events Discussed in New "ViewPoint"

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I would like to start by addressing the impacts caused by the recent hurricanes. The Fed, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and State banking agencies continue to work with financial institutions to meet the needs of their customers as they recover from storm damage. Additional information on the agencies' response to hurricanes Harvey and Irma and supervisory expectations, as well as the Atlanta Fed's contingency planning, is included below. Our best wishes go out to all those affected by these tragic events.

Uncertainty continues to be a theme regarding the future of financial regulation. The first Spotlight article includes a review of the current state of supervision and regulation. The second Spotlight article takes a look the international banking presence in the District. As always, we begin with our recurring feature, State of the District for an overview of community banking conditions.

State of the District
Firms are beginning to see the positive side of the increase in interest rates. Earnings improved significantly in the second quarter for community banks as the March increase in rates was priced into new loan originations and renewals. The median Return on Average Assets (ROAA) was 0.97 percent, the highest level in nearly 10 years, consistent with banks on a national level.

However, the pace of loan growth for Sixth District community banks declined to the lowest level since the second half of 2013. If loan demand continues to contract, opportunities to take advantage of the change in rates may be limited. Asset quality remains healthy, with noncurrent loans falling to the lowest level since late 2007. Capital levels continue to be stable for most community banks across the Sixth District. The ratio has remained around 15 percent since the second half of 2012.

Liquidity remains strong relative to pre-recession levels. However, funding pressure may come later in the year if rates continue to increase and depositors seek better returns elsewhere. The FDIC has already expressed concern over the amount of noncore funding that some community banks are relying on to fuel loan growth. Institutions should continue to closely monitor their exposure to interest rate risk.

Response to hurricanes Harvey and Irma
Federal and State banking agencies have issued statements on supervisory practices regarding financial institutions and borrowers affected by hurricanes Harvey and Irma, recognizing the important role financial institutions play in their communities. The statementS acknowledge that efforts to work with borrowers in communities under stress can be consistent with safe and sound banking practices as well as the public interest. Prudent efforts to adjust or alter terms on existing loans in affected areas should not be subject to examiner criticism. In addition, financial institutions may receive Community Reinvestment Act consideration for community development loans, investments, or services that revitalize or stabilize federally designated disaster areas. The agencies also realize that local government projects may have been negatively affected by the hurricane. Bankers should monitor municipal securities and loans accordingly. The agencies encourage appropriate monitoring and prudent efforts to stabilize such investments.

As a reminder, the Atlanta Fed has a business continuity plan in place to maintain vital financial services in crisis situations. It is our intent to minimize any impact on Fed functions as much as possible. Reserve Bank staff is on duty to assure continued operations and to work with affected institutions. A variety of options to ensure communications are available. Additional information on business continuity plans is available on our website, which, in the event of a crisis, will include the most current updates on effects on payment services, the discount window, bank supervision, and other services.

The state of Supervision and Regulation
In my last letter, I reaffirmed the Board's focus on "right-sizing" supervision. Speculation continues on the future of regulation. In our first Spotlight article, we provide our view of the state of supervision and regulation, including a review of outstanding proposals and an update on Dodd-Frank implementation.

International banking in the Sixth District
The international banking presence in the Sixth District includes more than 30 entities with $48.2 billion in assets. Our second Spotlight article provides an overview of these institutions and their activity in the District.

Regulatory update
Extension of certain capital rule transition dates proposed
On August 22, in preparation for an upcoming proposal to simplify regulatory capital rules in response to feedback received in the Economic Growth and Regulatory Paperwork Reduction Act review process, the agencies proposed an extension of certain existing transitional capital treatments for firms not subject to advanced approaches rules. The anticipated capital proposal would reduce the regulatory burden for smaller firms.

New large financial institution rating system proposed
On August 3, the agencies requested comment on a proposal for a new large financial institution (LFI) rating system. The new rating framework for LFIs with more than $50 billion in assets would better align the Board's rating system with the post-crisis supervisory program for these firms. This proposal is significantly different from the existing rating framework, which will remain in effect for bank holding companies with less than $50 billion in assets.

Proposed tiered corporate governance clarifying the roles of boards of directors
Also on August 3, the agencies requested comment on a proposal to provide new guidance on director responsibilities. The guidance would refocus the Federal Reserve's supervisory expectations for firms' boards of directors on their core responsibilities, which will improve the effectiveness of board oversight.

Proposed increase in appraisal threshold for commercial real estate loans
On July 19, in response to the cost and time associated with completing real estate transactions, the agencies requested comment on a proposal that would raise the appraisal requirement threshold from $250,000 to $400,000. The agencies believe raising this threshold for commercial real estate transactions from the current level of $250,000 will significantly reduce the number of transactions that require an appraisal and will not pose a threat to the safety and soundness of financial institutions. Instead of an appraisal, the proposal would require that commercial real estate transactions at or below the threshold receive an evaluation.

Additional detail on these proposals will be provided in our first Spotlight article on the State of Supervision and Regulation.

Upcoming events
The next ViewPoint Live! is scheduled for Monday, November 13, at 2 p.m. Atlanta Fed President Raphael Bostic will join me to discuss current issues and future plans. The program will provide an opportunity for bankers to submit their questions to President Bostic. Remember to check back here for the registration link for this special event and to read the articles that we will publish in the fourth quarter of 2017.

As always, I welcome your comments or questions. Please share your feedback with me at ViewPoint@atl.frb.org.

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