Regulatory Dispatch

Timely news and resources community bankers can use to better stay on top of a rapidly changing world.

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Bank Regulation in 2025 and Beyond - Governor Michelle W. Bowman

Tailoring
The approach to regulation and supervision should promote a healthy and vibrant banking system. One key element of a regulatory approach that does so, and one that I often highlight, is the use of "tailoring" in the regulatory framework. For those familiar with my philosophy on bank regulation and supervision, my interest and focus on tailoring will come as no surprise. In its most basic form, it is difficult to disagree with the virtue of regulatory and supervisory tailoring—calibrating the requirements and expectations imposed on a firm based on its size, business model, risk profile, and complexity—as a reasonable, appropriate, and responsible approach for bank regulation and supervision. In fact, tailoring is embedded in the statutory fabric of the Federal Reserve's bank regulatory responsibilities.

The bank regulatory framework inherently includes significant costs—both the cost of operating the banking agencies and the cost to the banking industry of complying with regulations, the examination process, and supplying information to regulators both through formal information collections and through one-off requests. In the aggregate, these costs can ultimately affect the price and availability of credit, geographic access to banking services, and the broader economy. The cost of this framework—both to regulators and to the industry—reflects layers of policy decisions over many years. But this framework could be more effective in balancing the mandate to promote safety and soundness with the need to have a banking system that promotes economic growth.

Let's consider costs. As regulatory and supervisory demands grow, there is often parallel growth in the staff and budgets of the banking agencies. We should not only be cognizant of these costs, but we should act in a way that requires efficiency while ensuring safety and soundness. Some degree of elasticity in regulator capacity is necessary to respond to evolving economic and banking conditions, as well as emerging risks, but there must be reasonable constraints on banking agency growth. Expansion of the regulatory framework is not a cost-free endeavor. These costs are shouldered by taxpayers, banks, and, ultimately, bank customers.

The bank regulatory framework has great potential to provide significant benefits, including supporting an innovative banking system that enhances trust and confidence in our institutions and promotes safety and soundness. When we consider the benefits and the costs, we can institute greater efficiencies in both banking regulation and in the banking industry itself. The framework is complex, and the various elements of this framework are intended to work in a complementary way. As banks evolve—by growing

larger or by engaging in new activities—tailoring can help us to quickly recalibrate requirements in light of the new risks posed by the firm.

But the regulatory framework, especially how supervisors prioritize its application to the banking industry, can pose a serious threat to a bank's viability. For example, imposing the same regulatory requirements on banks with assets of $2 billion to $2 trillion under the new rules implementing the Community Reinvestment Act demonstrated a missed opportunity to promote greater effectiveness and efficiency. I question the wisdom of applying the same evaluation standards to banks within such a broad range.

Likewise, supervisory guidance can provide fertile ground to differentiate supervisory expectations under a more tailored approach. While supervisory guidance is not binding on banks as a legal matter, it can signal how regulators think about particular risks and activities, and often drives community banks to reallocate resources in a way that may not be necessary or appropriate. The Fed's guidance on third-party risk management is an example of this. Originally, this guidance was published in a way that applied to all banks, including community banks. Yet it was acknowledged even at the time of publication that it had known shortcomings, particularly in terms of its administration and lack of clarity for community banks.

Tailoring is important for all banks, but it is particularly important for community banks. There are real costs not only to banks, but to communities, when the framework is insufficiently tailored, as community banks faced with excessive regulatory burdens may be forced to raise prices or seek to merge or be acquired. These banks often reach unbanked or underbanked corners of the U.S. economy, not only in terms of the customers they serve but also in terms of their geographic footprint. We are all familiar with banking deserts and the challenges many legitimate and law-abiding businesses and consumers have in accessing basic banking services and credit. It is difficult to imagine that a system with far fewer banks would as effectively serve U.S. banking and credit needs and sufficiently support economic growth.

It is imperative that we keep the benefits of tailoring in focus as the bank regulatory framework evolves. A tailored regulatory and supervisory approach can help inform our policies on a wide range of industry issues that are likely to emerge in the coming years.

Bank Management

	FDIC Acting Chairman Travis Hill Expresses Support for Enhancing Flexibility with Respect to Customer Identification Program Requirements (02/07/2025) – WASHINGTON – Acting Chairman Travis Hill sent a letter to the Financial Crimes Enforcement Network (FinCEN) expressing support for allowing more flexibility with respect to certain Customer Identification Program (CIP) requirements for bank-fintech partnerships. Specifically, Acting Chairman Hill expressed support for generally allowing the collection of the last four digits of a Social Security number from a customer, rather than the full nine digits -- the approach permitted for credit card customers. The letter states, “Aligning regulatory requirements to modern onboarding processes is long overdue. Federal authorities have long allowed banks to onboard credit card customers in this way; I support extending this approach more broadly. . . I look forward to working with our regulatory partners to modernize our approach to reflect private sector innovation in providing customer access to financial services.”

FDIC Releases Documents Related to Supervision of Crypto-Related Activities (02/05/2025) – WASHINGTON - Today, the Federal Deposit Insurance Corporation (FDIC) released 175 documents related to its supervision of banks that engaged in, or sought to engage in, crypto-related activities.
Acting Chairman Travis Hill issued the following statement in connection with the release: "I have been critical in the past of the FDIC's approach to crypto assets and blockchain. As I said last March, the FDIC's approach 'has contributed to a general perception that the agency was closed for business if institutions are interested in anything related to blockchain or distributed ledger technology.'

"Upon becoming Acting Chairman, I directed staff to conduct a comprehensive review of all supervisory communications with banks that sought to offer crypto-related products or services. While this review remains underway, we are releasing a large batch of documents today, in advance of a court-ordered deadline of Friday. Our decision to release these documents reflects a commitment to enhance transparency, beyond what is required by the Freedom of Information Act (FOIA), while also attempting to fulfill the spirit of the FOIA request.

"Previously, the FDIC released 25 so-called 'pause' letters sent to 24 institutions interested in pursuing crypto- or blockchain-related activities. The documents released today include (1) additional correspondence with those 24 institutions and (2) correspondence with additional institutions beyond those 24. The documents that we are releasing today show that requests from these banks were almost universally met with resistance, ranging from repeated requests for further information, to multi-month periods of silence as institutions waited for responses, to directives from supervisors to pause, suspend, or refrain from expanding all crypto- or blockchain-related activity. Both individually and collectively, these and other actions sent the message to banks that it would be extraordinarily difficult—if not impossible—to move forward. As a result, the vast majority of banks simply stopped trying.

"Looking forward, we are actively reevaluating our supervisory approach to crypto-related activities. This includes replacing Financial Institution Letter (FIL) 16-2022 and providing a pathway for institutions to engage in crypto- and blockchain-related activities while still adhering to safety and soundness principles. The FDIC also looks forward to engaging with the President's Working Group on Digital Asset Markets established by the President's January 23, 2025 Executive Order."

A link to the FDIC's FOIA Reading Room is available here.

Comment: President Trump has issued an executive order titled "Strengthening American Leadership in Digital Financial Technology" aimed at supporting "the responsible growth and use of digital assets, blockchain technology, and related technologies across all sectors of the economy." This executive order marks a significant departure from prior federal policies – including those at the FDIC - that were viewed as restrictive to the crypto and blockchain industries.

FRB U.S. Economic Outlook and Monetary Policy Vice Chair Philip N. Jefferson (02/04/2025) – *Economic Activity - The U.S. economy appears to be maintaining its momentum after growing at a solid pace last year. Last year's growth was notable because many private forecasters in 2023 projected a significant downturn sometime in 2024.2 However, data over the past year painted a very different picture. GDP grew 2.3 percent in the fourth quarter of 2024, according to last week's data release.3 As you can see in figure*

1, that extends a stretch of solid quarterly growth over the past couple of years. Shortly, when I discuss the labor market, I will say more related to the large swing in GDP growth in 2020 that stands out in this chart. For all of 2024, the economy grew 2.5 percent, which is a modest slowing from the 3.2 percent growth in 2023. The economy has been benefiting from positive supply developments, including more workers joining the labor force and higher labor productivity.

The resilience of American consumers is the driving force behind the solid economic growth seen in recent quarters. Household spending, adjusted for inflation, grew 3.2 percent in 2024, slightly stronger than in 2023. The consumer spending data we have received recently have surprised me to the upside. As you can see in figure 2, personal consumption increased at a faster pace each quarter last year. Nominal retail sales rose briskly in the second half of last year. Private-sector data are consistent with GDP figures. According to private surveys of businesses, activity in the services sector, which accounts for about two-thirds of all consumer spending, has been on a general upward trajectory since mid-2020.

Elsewhere in the economy, growth has been less robust. Residential investment has been fairly flat over the past three quarters, and growth of business fixed investment cooled last year from its strong 2023 pace. Much of the equipment investment that did take place came from imports. Indeed, domestic manufacturing industrial production was flat last year. Overall, I see the economy as continuing to grow at a healthy pace this year, though I anticipate growth to be slightly lower than what we observed in 2024. Households and firms face an uncertain environment, and that tends to lower consumer spending and business investment. If consumer spending continues to grow at the same pace as it has in the past two years, however, that could cause me to revise up my outlook for overall economic growth.

CFPB Statement on Designation of Treasury Secretary Scott Bessent as Acting Director of the Consumer Financial Protection Bureau (02/03/2025) – Washington, D.C. — On January 31, 2025, President Trump designated Secretary of the Treasury Scott Bessent as Acting Director of the Consumer Financial Protection Bureau (CFPB).

"I look forward to working with the CFPB to advance President Trump's agenda to lower costs for the American people and accelerate economic growth," said Secretary Bessent.

Comment: This week, Davis Wright Tremaine LLP published an interesting article and accompanying *.pdf entitled 'New Administration Outlook: What Does the CFPB "Freeze" Mean for Regulations and Pending Litigation?'

Deposit / Retail Operations

FDIC Consumer News - February 2025 Edition (02/03/2025) – Ideas for managing your refund safely and securely.

Here are some ideas to help your money arrive quickly and safely, once you have submitted your federal taxes and expect a refund coming to you. Consider these safe ways to receive and manage your refund.

Find out if you may be eligible for free tax-preparation assistance through the IRS
The Internal Revenue Service (IRS) Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs offer free basic tax return preparation to

	qualified individuals. By assisting taxpayers to prepare their taxes, VITA/TCE providers assist taxpayers with identifying all the credits for which they are eligible, such as the Earned Income Tax Credit, which can lead to a large refund. ***Comment: The Bureau of the Fiscal Service has a Tax Refund Frequently Asked Questions page that provides answers to both taxpayers and banks receiving federal payments.***
	FTC Scammers impersonate FTC officials, including Chairman Andrew Ferguson (02/03/2025) – Scammers lie and pretend to be someone they're not to trick you into giving them money, access to your accounts, or your personal information. They pretend to be from a business you know or from a government agency — or both. In the latest twist on these constantly evolving schemes, scammers are claiming to be FTC Chairman Andrew Ferguson.

Lending

	FRB Consumer Credit – G. 19 (01/24/2025) – December 2024 - In 2024, consumer credit increased 2.4 percent, with revolving and nonrevolving credit increasing 4.8 percent and 1.6 percent, respectively. During the fourth quarter, consumer credit increased at a seasonally adjusted annual rate of 4.2 percent, while in December it increased at a seasonally adjusted annual rate of 9.6 percent.
	FRB Senior Loan Officer Opinion Survey on Bank Lending Practices (02/03/2025) – The January 2025 Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) addressed changes in the standards and terms on, and demand for, bank loans to businesses and households over the past three months, which generally correspond to the fourth quarter of 2024. Regarding loans to businesses over the fourth quarter, survey respondents reported, on balance, tighter lending standards for commercial and industrial (C&I) loans to firms of all sizes. Meanwhile, banks reported stronger demand for C&I loans to large and middle-market firms, while demand for C&I loans to small firms remained basically unchanged.2 Furthermore, banks generally reported tighter standards and basically unchanged demand for commercial real estate (CRE) loans. For loans to households, banks reported, on balance, basically unchanged lending standards and weaker demand across most categories of residential real estate (RRE) loans. In addition, standards reportedly tightened for credit card loans and remained basically unchanged for auto and other consumer loans, while demand weakened for credit card and other consumer loans but remained basically unchanged for auto loans. Further, banks reported basically unchanged lending standards and demand for home equity lines of credit (HELOCs). The January SLOOS included a set of special questions inquiring about banks' expectations for changes in lending standards, borrower demand, and loan performance over 2025. Banks reported expecting lending standards to either ease or remain basically unchanged and demand to strengthen across all loan categories. In addition, banks generally reported expecting loan quality to improve for loans to businesses but to either deteriorate or remain basically unchanged for most consumer loan types.

Special Questions on Banks' Outlook for 2025
(Table 1, questions 27–40; table 2, questions 9–16)

The January SLOOS included a set of special questions inquiring about banks' expectations for changes in lending standards, borrower demand, and asset quality over 2025, assuming that economic activity evolves in line with consensus forecasts. On balance, banks reported expecting lending standards to either ease or remain basically unchanged and demand to strengthen across all loan categories. Banks also reported expecting credit quality to improve for most business loan types during 2025, and to either deteriorate or remain basically unchanged for most household loan types.

Regarding lending standards, modest net shares of banks reported expecting to ease standards for CRE loans secured by multifamily properties, for GSE-eligible residential mortgages, and for auto loans. Meanwhile, banks reported expecting standards to remain basically unchanged for all remaining loan types over 2025 on net. The most frequently cited reasons for expecting lending standards to ease, cited by major net shares of banks, were a more favorable or less uncertain economic outlook, an expected increase in competition from other lenders, an expected increase in risk tolerance, and an expected improvement in credit quality of their loan portfolio.

Meanwhile, major net shares of banks reported expecting stronger demand for C&I loans to firms of all sizes over 2025; significant net shares of banks reported expecting stronger demand for all CRE and RRE loan categories, as well as for auto loans; and a moderate net share of banks reported expecting stronger demand for credit card loans. Among banks who reported expecting stronger demand, major net shares cited an expected decline in interest rates and expected higher spending or investment needs due to more favorable or less uncertain income prospects as important.

Regarding expectations for credit quality—as measured by delinquencies and charge-offs—moderate or modest net shares of banks reported expecting improvements for C&I loans to large and middle-market firms, all CRE loan categories, and auto loans to prime borrowers.13 In contrast, modest net shares of banks reported expecting credit quality to deteriorate for GSE-eligible residential mortgages and for all queried consumer loan types to nonprime borrowers.14 Credit quality was expected to remain around current levels, on balance, for all other loan categories

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.

12.09.2024 **CFPB** Fair Credit Reporting Act (Regulation V); Identity Theft and Coerced Debt SUMMARY: The Consumer Financial Protection Bureau (CFPB) is seeking information in advance of preparing a proposed rule to address concerns related to information furnished to credit bureaus and other consumer reporting agencies concerning coerced debt. More specifically, this advance notice of proposed rulemaking solicits information on amending the definitions of "identity theft" and "identity theft report" in Regulation V, which implements the Fair Credit Reporting Act, as well as other related amendments to Regulation V, to include information stemming from transactions that occurred without the consumer's effective consent. **DATES: Comments must be received by March 7, 2025.**

01.10.2025 **CFPB** Electronic Fund Transfers Through Accounts Established Primarily for Personal, Family, or Household Purposes Using Emerging Payment Mechanisms SUMMARY: In light of interest by electronic fund transfer system market participants to offer new types of products to transfer funds and make purchases through accounts established primarily for personal, family, or household purposes, the Consumer Financial Protection Bureau (CFPB) is proposing this interpretive rule to assist companies, investors, and other market participants evaluating existing statutory and regulatory requirements governing electronic fund transfers (EFTs). **DATES: Comments must be received by March 31, 2025.**

01.10.2025 **CFPB** Request for Information Regarding the Collection, Use, and Monetization of Consumer Payment and Other Personal Financial Data SUMMARY: The Consumer Financial Protection Bureau (CFPB) is seeking comments from the public to better understand how companies that offer or provide consumer financial products or services collect, use, share, and protect consumers' personal financial data, such as data harvested from consumer payments. The submissions in response to this request for information will serve to assist the CFPB and policymakers in further understanding the current state of the business practices at these companies and the concerns of consumers as the CFPB exercises its enforcement, supervision, regulatory, and other authorities. **DATES: Comments must be received on or before April 11, 2025.**

01.13.2025 **CFPB** Prohibited Terms and Conditions in Agreements for Consumer Financial Products or Services (Regulation AA) SUMMARY: The Consumer Financial Protection Bureau (CFPB) is proposing to prohibit certain contractual provisions in agreements for consumer financial products or services. The proposal would prohibit covered persons from including in their contracts any provisions purporting to waive substantive consumer legal rights and protections (or their remedies) granted by State or Federal law. The proposal would also prohibit contract terms that limit free expression, including with threats of account closure, fines, or breach of contract claims, as well as other contract terms. The proposal would also codify certain longstanding prohibitions under the Federal Trade Commission's (FTC) Credit Practices Rule. **DATES: Comments must be received on or before April 1, 2025.**