Regulatory Dispatch

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

June 11, 2025

Bank Management

FRB Taking a Fresh Look at Supervision and Regulation - Vice Chair for Supervision Michelle W. Bowman (06/06/2025) – *Tailoring. Risks are not uniform, and each bank is unique based on its business model, complexity, and business profile. I am a long-time proponent of tailoring banking regulations. Going forward we will extend the application of tailoring to our supervisory approach to financial institutions, not only among bank categories, but also within a particular category.*

In the past, the Board has "pushed down" requirements developed for the largest firms to smaller banks, often including regional and community banks. One approach that would preserve tailoring is to create an independent community bank supervisory and regulatory framework to clearly separate these banks from larger bank supervision and regulation. This would serve to insulate these smaller banks from standards designed for larger and more complex firms. While I have no objection to a deliberate, intentional policy to apply similar standards to firms with similar characteristics as conditions warrant, the gradual erosion of distinct regulatory and supervisory standards among firms with very different characteristics—essentially the subtle reversal of tailoring over time—is not a reasonable approach for implementing supervision and regulation.

Both regulators and legislators should consider whether the bank regulatory framework includes appropriate thresholds for defining distinct categories of institutions, and whether simple fixes—for example the indexing of thresholds to inflation or growth—could better ensure a sound, tailored approach that remains durable over time. It is clear that the current $10 billion threshold defining the upper bounds of a "community bank" leaves many institutions that pursue this business model—of community and relationship-based banking—subject to heightened requirements more suitable for larger and more complex firms.

To further these objectives, later this year I will host a conference on small and community bank issues, to discuss improving the bank regulatory framework to adopt a more efficient, tailored approach for these firms. We must demonstrate wisdom and courage by carefully listening to those who are subject to regulatory oversight and considering ways to enhance our approaches to both supervision and regulation.

One issue that continues to present challenges to smaller banks is check fraud. The ongoing increase in bank losses to this type of fraud can negatively impact the perceived safety of the banking system and result in significant consumer harm. Past efforts by regulators have been frustratingly slow to advance and seem to have done little to address the underlying root causes of this increase in fraud. I will continue to work to identify specific actions that can be taken to reduce the incidence of fraud, including through expediting the

	remediation process from check fraud after it occurs. I expect that the Federal Reserve, in coordination with the OCC and FDIC, will soon take action on this front. ***Comment: From the Conference of State Bank Supervisors - "CSBS congratulates Governor Bowman on her confirmation as the Federal Reserve Vice Chair for Supervision. She brings an invaluable perspective to the role, having previously served as a state bank supervisor and community banker. We welcome her leadership on efforts to appropriately tailor regulation for all financial institutions, foster an innovative and competitive financial system, and protect the dual banking system."***
	FRB Reporting Dividends and Return of Capital: What Bankers Need to Know (06/05/2025) – The terms "dividends" and "return of capital" are familiar ones, especially for those in the banking industry. However, do you truly know the difference between the two? Data suggest that more than occasionally banks themselves misreport a dividend transaction as a return of capital or vice versa. Beyond data accuracy, this type of error begs the question of whether confusing the two when filing regulatory reports carries noteworthy ramifications. Hidden reporting crevices aren't really all that hidden, but—like an unexplored cave—it's never clear how deep they go or how much effort it will take to get to the destination. Regardless, the effort is not for naught as guidance, regulation, and general views are ever evolving and influenced by better understandings and more information. Thus, the pursuit of an answer to this reporting question better equips you, by illustrating a process, to tackle future areas that might be unclear. Although returns of capital and dividends might appear to be the same thing because both involve a company's distribution to its shareholders, it is the source of the funds that sets them apart. This article will discuss the reporting of these two different transactions and will attempt to clarify the difference between the accounting for dividends and that of return of capital. Reporting these two transactions correctly is of paramount importance, because accurate reporting can help regulatory supervisors and other stakeholders draw the right conclusions. As such, the Federal Reserve Bank of Atlanta (for example, through this article) seeks to build awareness of and provide insightful information on dividends and return of capital to help improve the accuracy of regulatory reporting data and provide clarity to both the banking industry and consumers. ***Comment: Excellent refresher for bankers.***
	FRB Beige Book (06/04/2025) – National Summary: Overall Economic Activity Reports across the twelve Federal Reserve Districts indicate that economic activity has declined slightly since the previous report. Half of the Districts reported slight to moderate declines in activity, three Districts reported no change, and three Districts reported slight growth. All Districts reported elevated levels of economic and policy uncertainty, which have led to hesitancy and a cautious approach to business and household decisions. Manufacturing activity declined slightly. Consumer spending reports were mixed, with most Districts reporting slight declines or no change; however, some Districts reported increases in spending on items expected to be affected by tariffs. Residential real estate sales were little changed, and most District reports on new home construction indicate flat or slowing construction activity. Reports on bank loan demand and capital spending plans

were mixed. Activity at ports was robust, while reports on transportation and warehouse activity in other areas were mixed. On balance, the outlook remains slightly pessimistic and uncertain, unchanged relative to the previous report. However, a few District reports indicate the outlook has deteriorated while a few others indicate the outlook has improved.

Labor Markets
Employment has been little changed since the previous report. Most Districts described employment as flat, three Districts reported slight-to-modest increases, and two Districts reported slight declines. Many Districts reported lower employee turnover rates and more applicants for open positions. Comments about uncertainty delaying hiring were widespread. All Districts described lower labor demand, citing declining hours worked and overtime, hiring pauses, and staff reduction plans. Some Districts reported layoffs in certain sectors, but these layoffs were not pervasive. Two Districts noted that, for many of their contacts, hiring plans had not changed since the start of the year. Wages continued to grow at a modest pace, although many Districts reported a general easing in wage pressures. A few Districts indicated that higher costs of living continued to put upward pressure on wages.

Prices
Prices have increased at a moderate pace since the previous report. There were widespread reports of contacts expecting costs and prices to rise at a faster rate going forward. A few Districts described these expected cost increases as strong, significant, or substantial. All District reports indicated that higher tariff rates were putting upward pressure on costs and prices. However, contacts' responses to these higher costs varied, including increasing prices on affected items, increasing prices on all items, reducing profit margins, and adding temporary fees or surcharges. Contacts that plan to pass along tariff-related costs expect to do so within three months.

Highlights by Federal Reserve District

FRB Opening Remarks - Chair Jerome H. Powell At the Division of International Finance 75th Anniversary Conference, Federal Reserve Board, Washington, D.C. (06/02/2025) – *New Era for Global Economy - The IF division was created on July 1, 1950, but the idea began to germinate a few years earlier. The U.S. emerged from World War II as a global economic superpower. The Bretton Woods Agreement placed the U.S., and the Fed, in a central position in the global economy. Our mission then, as it is now, was to serve the American people. But it was clear at that moment that the Fed needed to have better knowledge of global developments to achieve our dual-mandate goals.*

A 1948 memo proposing to create this division stated, "Problems of international economics and finance have become increasingly large, complex, and significant in recent years, and our foreign economic relations will undoubtedly continue to give rise to issues of the first magnitude." That is the rare economic forecast that turned out to be spot on!

Seventy-five years later, it remains critical that the Fed understand the policies and practices of other governments and central banks, and their implications for the U.S. economy and financial markets. Exchange rate policy, of course, is now firmly in the hands of the U.S. Treasury. However, the end of the Bretton Woods era in the 1970s fundamentally changed the conduct of monetary policy, as policymakers had to understand the effects of potentially more volatile movements of the U.S. dollar on American families and businesses.

Understanding global trade and capital movements has only grown in importance since 1950, as we saw during the pandemic. The IF division helps produce the data on international capital flows, and has spent decades researching the effects of these flows and international trade on U.S. and foreign economies. Understanding this complex and interconnected web is essential for us to anticipate the path of employment and inflation.

Another important development in the 1970s was the increasing use of macroeconomic modeling, which greatly influenced the division's work. Under the direction of former Division Director Ralph Bryant, IF developed its first multicountry model. Always on the forefront, over the years, economists in the division—many of whom are in this room today—developed increasingly sophisticated models, with each new generation expanding the capability to tackle the international risks and issues of the day. These models have proven useful for understanding how international shocks transmit through the economy and financial markets, for assessing risks and uncertainties through alternative scenarios, and for better comprehending the implications of various shocks for the U.S. and global economy. The results have informed research papers, Board memos and briefings, as well as the risks and uncertainty assessment that Federal Open Market Committee members receive in advance of every meeting.

FRB Economic Outlook - Governor Lisa D. Cook (06/03/2025) – *Economic Outlook: The U.S. economy is still on a firm footing, but uncertainty has notably increased since the beginning of the year. The latest data indicate that unemployment continues to be low, while inflation remains somewhat above the Federal Open Market Committee's (FOMC) 2 percent goal. However, there is evidence that changes to trade policy are starting to affect the economy. I do not express views on the Administration's policies. But I do study the economic implications, which appear to be increasing the likelihood of both higher inflation and labor–market cooling. In this environment, monetary policy will need to carefully balance our dual-mandate goals of price stability and maximum employment. Former Chair Ben Bernanke said that, in times of uncertainty, policymakers must consider a range of possible scenarios about the state of the economy. The resulting policy decisions, he said, "may look quite different from those that would be optimal under certainty."2*

Let me start by looking at one part of our mandate. Inflation has declined from its pandemic highs but remains somewhat above target. The most recent data show that inflation was 2.1 percent for the 12 months ending in April and 2.5 percent when excluding food and energy costs.3 Price increases tied to changes in trade policy may make it difficult to achieve further progress in the near term. One-year inflation expectations have risen sharply this year. So far, most measures of longer-term inflation expectations have moved less significantly. I will continue to monitor these data carefully. The recent post-pandemic experience with high inflation could make firms more willing to raise prices and consumers more likely to expect high inflation to persist.

I will now turn to the other part of our mandate. The labor market has remained resilient, at least through early spring. The unemployment rate in April held steady at 4.2 percent, a historically low level. Payroll job gains averaged nearly 150,000 per month through four months this year, a moderation from last year. Trade policy changes could alter hiring plans in the near future. Changes to global trading patterns could also have a negative effect on U.S. productivity. Though, as I noted in recent remarks, productivity gains associated with the introduction of artificial intelligence technology into the workplace could potentially, at least in part, counter that effect.4

	In terms of overall economic activity, U.S. GDP moved lower in the first quarter after solid growth last year. However, private domestic final purchases, which exclude net exports, inventory investment, and government spending, grew last quarter at a rate consistent with recent readings. Looking ahead, I anticipate a slowdown in the expansion of economic activity from last year's pace. The ultimate level of tariffs remains unknown because policy changes are still developing. However, the effects are already noticeable. Manufacturing output declined in April. Orders for heavy trucks plunged. Firms reported a drop in capital expenditure plans for 2025. Measures of uncertainty have increased, on net, this year, and household and business sentiment has declined, despite some recent improvements in both.

BSA / AML

	FinCEN Treasury to Publish 30-Day Notice for the Residential Real Estate Rule's Real Estate Report (06/05/2025) – The U.S. Department of the Treasury, on behalf of the Financial Crimes Enforcement Network (FinCEN), will submit the Real Estate Report (RER) information collection request to the Office of Management and Budget (OMB) for review and clearance in accordance with the Paperwork Reduction Act of 1995 (PRA), on or after the date of publication of this notice. The details included in the information collection are listed in the notice. The Residential Real Estate Rule, which will be effective on December 1, 2025, requires select real estate professionals to submit reports and keep records about certain high-risk, non-financed transfers of residential real property to specified legal entities and trusts. This data will support the U.S. Department of the Treasury, law enforcement, and national security agencies in addressing illicit finance vulnerabilities in the U.S. residential real estate sector. It will also help curtail bad actors' ability to use American residential real estate as a tool to anonymously launder and store illicit funds, which distorts housing prices and threatens U.S. economic and national security. The public is invited to submit comments on this information collection request on or before July 7, 2025. ***Comment: Notably, the real estate rule may to a degree fill holes in the U.S. anti-money laundering net that were left open when the Treasury Department recently eviscerated a rule implementing the Corporate Transparency Act (CTA), a law intended to prevent criminal abuse of shell companies by requiring tens of millions of U.S. legal entities to report beneficial ownership information (BOI).***

Deposit / Retail Operations

	FTC Protect Yourself from Phishing Scams (06/04/2025) – Do you feel like you're getting more emails from strangers than messages from people you actually know? These unexpected messages are often phishing scams trying to steal your money and personal information. FTC data shows that email was the top method scammers used to contact people in 2024. To help you avoid these scams, here's what to know. ***Comment: Another recent alert from the FTC dealt with student loan scams. Education and informing you accountholders - and staff – is critical to avoid scams.***

Lending

	FRB Consumer Credit (06/06/2025) – Beginning with the May 2025 G.19 Consumer Credit statistical release, scheduled to be published on July 8, 2025, consumer credit estimates for the nonfinancial business sector will be discontinued beyond 2019. Total balances of consumer credit will include the estimates of nonfinancial business holdings through 2019. For more information, please see the announcement posted on April 7, 2025. April 2025 -In April, consumer credit increased at a seasonally adjusted annual rate of 4.3 percent. Revolving credit increased at an annual rate of 7 percent, while nonrevolving credit increased at an annual rate of 3.3 percent.
	FRB What Drives Consumer Interest Rates? (06/03/2025) – Interest rates are essentially the price of a loan. But how that price is set and why it changes can mystify consumers. Most consumers are already familiar with some factors affecting rates, such as credit scores and down payments. These factors are staples of consumer finance news because they help consumers understand how to get the lowest rate. Other factors, such as the market for asset-backed securities and monetary policy conducted by the Federal Reserve, receive less attention, perhaps because they're beyond consumers' control. But they can help explain why rates today are different than before. **Basic models for rate setting** Lenders typically use a "cost-plus" model to set interest rates. This means there's a base rate determined from the cost to fund the loan, with a margin added on top. How lenders calculate the cost varies, but it's generally driven by a few factors: • Interest rates that banks and other depository institutions must offer for customer deposits. These deposits are used by many banks to fund loans. • Interest rates on loans from other banks. Lenders, especially nondepository institutions like independent mortgage companies, often borrow money to fund loans. • Benchmark rates set by the government or industry. These can vary depending on the kind of loan. Rates for short-term loans, such as credit cards, or loans with variable rates may be benchmarked against the prime rate, the rate banks offer to their most creditworthy commercial customers. This rate is in turn benchmarked against the federal funds rate, which is the rate banks charge each other for overnight loans. Rates for long-term loans, such as mortgages, may be benchmarked against the 10-year Treasury note. The margin has many layers serving different purposes: • Paying for overhead costs, such as the cost of servicing the loan. • Compensating lending institutions for the risk that a borrower might default; credit scores and down payments affect this. • Profits for lenders. How large a profit depends on how competitive the market is and what institutions feel they need to ensure they're making the best use of their funds. • Profits for investors, which is based on what's happening in the asset-backed securities market, where loans are bought and sold. ***Comment: Interesting read not only for consumers but also for bankers wanting to understand loan pricing.***

Technology / Security

	CISA Updated Guidance on Play Ransomware (06/04/2025) – CISA, the Federal Bureau of Investigation (FBI), and the Australian Signals Directorate's Australian Cyber Security Centre (ASD's ACSC) have issued an updated advisory on Play Ransomware, also known as Playcrypt. This advisory highlights new tactics, techniques, and procedures used by the Play ransomware group and provides updated indicators of compromise (IOCs) to enhance threat detection. Since June 2022, Playcrypt has targeted diverse businesses and critical infrastructure across North America, South America, and Europe, becoming one of the most active ransomware groups in 2024. The FBI has identified approximately 900 entities allegedly exploited by these ransomware actors as of May 2025. Recommended mitigations include: • Implementing multifactor authentication; • Maintaining offline data backups; • Developing and testing a recovery plan; and • Keeping all operating systems, software, and firmware updated. Stay vigilant and take proactive measures to protect your organization.

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.

05.22.2025 FinCEN Agency Information Collection Activities; Proposed Renewal; Comment Request; Renewal Without Change of Prohibition on Correspondent Accounts for Foreign Shell Banks; Records Concerning Owners of Foreign Banks and Agents for Service of Legal Process SUMMARY: As part of its continuing effort to reduce paperwork and respondent burden, FinCEN invites comments on the proposed renewal, without change, of certain existing information collection requirements found in Bank Secrecy Act (BSA) regulations applicable to certain covered financial institutions. Under these regulations, among other requirements, a covered financial institution is prohibited from establishing, maintaining, administering, or managing correspondent accounts in the United States for or on behalf of a foreign shell bank. The regulations require that a covered financial institution take reasonable steps to ensure that any correspondent account that it establishes, maintains, administers, or manages in the United States for a foreign bank is not used by the foreign bank to indirectly provide banking services to a foreign shell bank. The regulations also mandate that a covered financial institution that maintains a correspondent account in the United States for a foreign bank retain records in the United States identifying the owners of each such foreign bank whose shares are not publicly traded, unless the foreign bank files a Form FR-Y with the Federal Reserve Board identifying the current owners of the foreign bank, and the name and street address of a person who resides in the United States and is authorized, and has agreed to be an agent to accept service of legal process for records regarding each such correspondent account. This request for comments is made pursuant to the Paperwork Reduction Act of 1995. **DATES: Written comments are welcome and must be received on or before July 21, 2025.**