Community Bankers of Michigan Regulatory Dispatch

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Timely news and resources community bankers can use

OCC's Semiannual Risk Perspective Highlights Key Risks in Federal Banking System

WASHINGTON—The Office of the Comptroller of the Currency (OCC) reported the key issues facing the federal banking system in the *Semiannual Risk Perspective* for Spring 2026.

Bank earnings improved in 2025, supported by loan growth and a decline in funding costs. Balance sheets remain strong and credit risk within the federal banking system remains manageable. Earnings releases for the first quarter of 2026 indicate that these trends have generally persisted.

The OCC highlighted credit, market, operational, and compliance risks, as key risk themes in the report. The report also discussed innovation. Highlights from the report include:

- Credit conditions and refinancing risk in certain segments of commercial real estate lending and private credit markets warrant ongoing monitoring.
- Modest increases in past-due loans have been observed in some consumer portfolios. However, OCC-supervised banks have manageable exposures to borrowers with weaker credit profiles.
- Balance sheets remain strong, with capital ratios and liquidity high by historical standards.
- Cyber threats and fraud remain a concern. Cybercriminal groups targeting the financial sector are increasingly sophisticated, and foreign state-sponsored actors continue to pose a threat. Banks continue to face challenges from both the elevated levels and rising sophistication of fraud and scams.
- A sound understanding of the potential benefits and possible risks associated with increasingly advanced AI tools coming onto the market that can assist with cybersecurity functions can be important for cyber risk management.
- Geopolitical tensions increase sanctions and money laundering risk, straining bank compliance systems, and may raise the potential for sanctions and Bank Secrecy Act/anti-money laundering violations.

The OCC continues to look for opportunities to tailor bank supervision and regulations to risk and complexity and reduce burden for its regulated institutions so they can support economic growth.

Related Link

- OCC *Semiannual Risk Perspective*, Spring 2026 (PDF)

Comment: Interesting that OCC regulatory concerns appear focused less on 'consumers' and more on a broader structural problem: whether banks can safely adapt to a higher-rate, digitally accelerated financial system where operational failures could trigger the next crisis as easily as credit losses.

Bank Management

FRB Speech by Governor Cook on the perspectives on tokenization and implications for the financial system (05/07/2026) – *Opportunities and Benefits - Having established that this is a fast-growing field filled with notable recent innovations, allow me to take a deeper dive into potential opportunities related to tokenization in financial markets. I can understand why financial firms are exploring this technology, as it demonstrates the potential to enhance transparency, improve efficiency through automation, and offer settlement flexibility in financial market transactions. Many of these benefits are illustrated through improvements to collateral mobility and liquidity management processes, which I view as the major use case for financial institutions. More broadly, tokenization could also increase competition and expand market access to different assets. Let me expand on each of these opportunities.*

First, tokenization could improve existing collateral and liquidity management processes in several meaningful ways. Current operational workflows for collateral and repo markets can include manual and fragmented processes that require reconciling data pools across disparate legacy systems. This can lead to delays, errors, and additional costs. Tokenization could allow recordkeeping to be streamlined through solutions that allow parties to share a single transparent source for tracking transactions and managing associated collateral. In addition, smart contracts can automate complex activities that currently require manual intervention, such as margin calls and collateral substitutions, increasing operational efficiency. Moreover, using tokenized funds to meet margin requirements can simplify investors' cash management and dampen redemption pressure, thus mitigating possible stress events in funding markets and improving financial stability.

Perhaps most significantly, tokenization and programmable contractual terms enable new types of transactions to occur intraday for capital and liquidity management. For example, tokenized MMFs enable frequent intraday investment and redemption, enhancing returns on idle cash. In addition, programmable contracts enable tokenized repo transactions to occur intraday, providing more timely access to liquidity than current overnight processes. This has recently become a significant institutional use case.

Another aspect is the technology's versatility, which allows it to support complex multicurrency and multi-asset transactions. Tokenization could facilitate settlement across multi-leg transactions and reduce the time gap between trading and settlement, which, under current practices, often takes an additional business day to settle post-trade and relies on traditional operating hours. Additionally, programmability allows tokens to function across trading, lending, and collateral applications, increasing flexibility in how assets can be used. For example, a repo combined with a foreign exchange transaction would seem highly relevant for countries within the Central Bank of West African States (BCEAO) and for neighboring countries or those trading with BCEAO countries. Since repos represent a major source of funding and liquidity management for large financial institutions, even marginal efficiency gains could translate into significant cost savings for market participants.

In terms of broader market dynamics, tokenization can foster competition and new forms of market collaboration. Tokenization can potentially lower operational barriers to entry for emerging financial services firms to compete with traditional institutions. We are seeing this activity already in the market,

with existing institutions, including major exchanges, partnering with these new firms to enable more efficient development of new products and services.

Finally, tokenization could expand market access in a way that is beneficial to both individuals and institutions. One of the benefits of the technology is the ability to use assets in new or more flexible ways. Programmable fractional ownership, for example, could allow for more flexible and expanded opportunities for investors by enabling small-denomination exposure with more flexible and automated transfer of ownership. The capabilities related to fractional ownership may be especially attractive in developing economies, including those in West Africa, where savers and investors may have fewer resources to invest but where a need exists to bolster capital markets as a complement to the social safety net. (Of course, I would simultaneously advocate for appropriate investor protections.)

To be clear, I do not see tokenization as replacing traditional market infrastructure. And it is important to acknowledge that certain barriers are in place in existing systems for policy or prudent risk-management purposes. Rather, the integration of these emerging capabilities with traditional infrastructures and established legal frameworks offers the opportunity to improve the efficiency and function of the entire financial system.

FRB A Coordinated Approach to Consumer Fraud Protection - Vice Chair for Supervision Michelle W. Bowman (05/05/2026) – Starting with the Data - Our own data, as shown in the 2025 Survey of Household Economics and Decision making—the SHED—indicated that one in five American adults experienced financial fraud or scams in 2024. To put that into context, that's 21 percent of the adult population.

While credit card fraud was the most common type of financial fraud, the impact to the consumer is less direct as individuals are not typically required to bear these financial losses. Other types of financial products, including bank accounts, investment accounts, or other financial products were involved in fraudulent activity for 8 percent of households. With these products, in many cases there is no automatic protection and no guarantee of recovery.

The total loss from non-credit card fraud across the financial system was $84 billion in 2024. Of this amount, only $21 billion was recovered, resulting in an estimated net loss of $63 billion in losses for individual consumers.

What does this mean in practice for individual households? According to the SHED survey, on average, the median loss for victims was $500, before any recovery. Even when victims were successfully able to recover funds, about half of those victims still lost money. In the broader context of Americans' financial capacity, 13 percent of Americans cannot cover a $400 emergency expense using cash or its equivalent.

Let that sink in—thirteen percent of Americans don't have $400 in cash on hand for an emergency. The median fraud loss before recovery is $500. Therefore, it should not be surprising that 30 percent of Americans who lost money in an online scam said that it negatively impacted their financial condition. For financially vulnerable households, a fraud loss can quickly escalate from an inconvenience to a crisis affecting their ability to cover essential expenses.

Given these devastating impacts on individual households, you might expect certain groups to be more vulnerable than others. But here's what the data actually shows. Adults aged 45 and older were more likely to experience fraud, largely due to higher credit card usage among these consumers. And elderly consumers are more likely to lose large amounts of money to fraud. But when we examined income levels, race, ethnicity, and gender, we found that the incidence of fraud was similar across all groups. This threat cuts across all demographic lines. No particular individual is insulated from these threats.

	Our banking system runs on trust—the belief that accounts are secure and customers can transfer money safely and reliably. When one in five adults experiences fraud and $63 billion disappears from household accounts, that trust erodes. But here's the challenge: The payment tools banks provide that allow customers to manage their financial lives—checks, debit cards, credit cards, and electronic payments—are instrumental for criminals trying to perpetrate fraud. More than half of non-credit card fraud involved a bank account product. Bank transfers and payments were the mechanism for almost 40 percent of aggregate reported losses from fraud in 2024. Criminals are exploiting vulnerabilities in payment systems, authentication processes, and the security measures designed to protect households. In response, banks are making unprecedented investments in security and consumer education. Yet instances of fraud continue to increase as fraudsters exploit new vulnerabilities and new technologies, while the industry works to create more effective mechanisms to identify, prevent, and remediate fraud. For example, many fraud operations are conducted in overseas scam centers beyond U.S. law enforcement reach, which complicates the ability to combat these schemes. ***Comment: Fraud remains a concern of the regulatory agencies, yet it has continued to grow exponentially.***
	FRB Speech by Vice Chair for Supervision Bowman on artificial intelligence in the financial system (05/01/2026) – Supervisory Approach - Over the past year, the Federal Reserve has been working to shift our supervisory focus to identifying and remediating material financial risk. To ensure safety and soundness, we are prioritizing those matters that lead to a bank's failure. I take a similar approach when considering the use of AI in the banking system. The rapid adoption and evolution of its capability reinforces the need for adaptable supervisory guidance and expectations. How should we consider third-party risk-management expectations for vendor-provided AI tools or partnerships? What aspects of model risk management should apply to AI? AI presents clear risks but also has the potential to offer tremendous benefits for cyber security. How should regulators think about this balance of risks? Our approach should support banks in implementing AI tools safely, effectively, and efficiently. Today, banks are relying on existing risk-management frameworks to guide their use of AI. While these supervisory tools are intended to support banks in applying sound governance and risk management, we should assess whether our supervisory guidance is fit for the future. Together with the OCC and FDIC, the Fed recently amended our model risk management guidance to clarify that it does not apply to generative or agentic AI. Over time, supervisors expanded the scope of the previous guidance beyond its original purpose to apply it in unintended ways. We recognize that rapidly evolving and novel technologies like AI may require a different approach. The revised guidance now applies narrowly to traditional models and basic AI applications. Going forward, we expect other risk-management and governance practices to support adoption of generative and agentic AI in ways that will encourage ongoing innovation. We are also working to update and simplify our third-party risk-management guidance to reflect actual and future risk. For too long, this guidance has been vague in its scope and application. Innovation is a necessary component of financial services, and supervisory guidance should not be a barrier for banks to engage with new and evolving tools and technologies. Supervisors must take a balanced approach to new and emerging risks and the expected benefits while preserving the safety of the financial system. This brings me to the impact of Anthropic's Mythos AI model. We know that this model accelerates the process of detecting cyber vulnerabilities. On one hand, this capability enables firms to address self-identified vulnerabilities thereby enhancing cyber security. But on the other hand, if used maliciously it could be deployed to identify and exploit weaknesses. As we learn more about this tool and others to be

released in the coming weeks and months, we will continue to consider effective supervisory approaches for these and other emerging capabilities.

As we position ourselves to supervise emerging technology: First, we must continue to stay abreast of new developments and to coordinate efforts across government. Earlier this month, Secretary Bessent and Chair Powell convened the largest banks to discuss Mythos and the cybersecurity implications of the Mythos model. This type of discussion is extremely beneficial to ensuring the protection of the banking system.

Second, regular communication regarding the unique risks of novel and potentially broadly impactful innovation is necessary. Banks of all sizes have expressed concern about access to the Mythos model. Regulators will continue to focus on critical developments and communicating these risks to supervised institutions, as well as on refining our cybersecurity approach.

Finally, we need to recognize that any regulatory or supervisory response must accommodate this evolution, regularly reviewing our approach and expectations, and communicating with industry. Feedback from industry is an important part of this approach, including from banks, financial firms, service providers, and other experts. These views will be extremely valuable as we refine our supervisory approach and response.

As we work to support innovation, it is necessary to determine whether our framework is appropriate. Have we established reasonable and effective supervisory expectations? Are bankers comfortable discussing emerging risks and new technologies with supervisory teams? Have we successfully implemented a pro-innovation mindset that allows responsible innovation and AI adoption to occur within the banking system?

Comment: In 2026, community banks view AI as a top priority, balancing its potential for efficiency with critical concerns around data security, regulatory compliance, and inherent bias in decision-making.

BSA / AML

FinCEN Consolidates and Updates Customer Due Diligence FAQs to Align with Exceptive Relief Order (05/06/2026) – The U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) is re-issuing frequently asked questions (FAQs) regarding customer due diligence (CDD) requirements for covered financial institutions to update certain FAQs to align with the exceptive relief order that FinCEN issued on February 13, 2026, and to consolidate three sets of previously issued FAQs into one document. These FAQs were separately published in 2016, 2018, and 2020 to assist covered financial institutions in understanding the scope of the final rule, Customer Due Diligence Requirements for Financial Institutions.

Resources

- Frequently Asked Questions
- FinCEN's CDD webpage

Comment: The updated FAQs combine FAQs separately published in 2016, 2018, and 2020 into a single document, and updates several answers to align with the February order. FinCEN maintains a CDD rule webpage covering information that financial institutions should know when complying with the rule, including the rule itself, links to all exceptive relief issued, and CDD examination related procedures.

Deposit / Retail Operations

	WoodsRogers When Good Faith Is Not Enough: Virginia Court Ruling on Forged Powers of Attorney (05/08/2026) – Risk Mitigation for Financial Institutions - Unless and until the Supreme Court reverses the decision, or corrective legislation is enacted and becomes effective, financial institutions should exercise increased diligence and caution when asked to rely on a POA, particularly in transactions involving significant dollar amounts. As this case demonstrates, an institution that accepts a forged POA may bear the loss even if it had no reason to know of the forgery. Financial institutions should consider the following steps to mitigate risk: • Verify that the acknowledgment applies to the entire POA and that the acknowledgment or signature page is not substituted from another document • Where feasible, contact the principal directly to confirm the authenticity of the POA • Require an opinion of counsel under the Virginia Uniform Power of Attorney Act confirming the validity of the POA and the agent's authority • Seek a hold harmless and indemnification agreement from the agent • For real estate loan transactions, confirm that lender title insurance covers this risk ***Comment: Good reminders to ensure staff trained on review of POA acceptance, scope, and review, including how to address concerns regarding authenticity.***
	FTC New trends in reports of imposter scams (05/07/2026) – Every year, the FTC gets millions of fraud reports from consumers and shares information about the top scams. In what's not a surprise for anyone who's followed along in the past, imposter scams were the #1 scam for the ninth year in a row. So, what do we know about these imposter scams?

Human Resources

	No news to report this week.

Lending

	FRB When Regulation Reshapes Markets: The Migration of Corporate Lending Vice Chair for Supervision Michelle W. Bowman (05/08/2026) – *The Recent Growth of Nondepository Financial Institution Corporate Lending - Over the past ten years, we have seen a shift in how credit reaches businesses in the real economy. Since 2015, the bank share of corporate lending decreased from 48 percent to 29 percent in 2025. The private credit market is a significant driver of this shift. In the United States, the private credit market has grown significantly and currently accounts for about $1.4 trillion, similar in size to both the leveraged loan market and the high-yield bond market. But despite its recent rapid growth, private credit is still a small fraction of overall corporate borrowing in the U.S.—making up only about 10 percent.* *There is no mystery about what drove the shift in corporate lending away from banks.2 While post-2008 financial crisis reforms strengthened bank capital and liquidity—which were necessary to promote the safety and soundness of banks and U.S. financial stability—they did so with unintended consequences. Attempts to address legitimate gaps resulted in some requirements becoming excessive relative to underlying risk, forcing banks to pare back on some corporate lending activities or to raise the cost of credit to borrowers.*

	The effects of the current framework become clear when we examine the incentive structure that it creates. Current capital rules create a perverse incentive—ironically, banks receive a more favorable treatment for lending to private credit funds than for lending directly to creditworthy corporations. This treatment encourages banks to finance intermediaries rather than directly serve end-borrowers. ***Comment: Private corporate lending continues to grow, with the US market reaching approximately $1.4 to $1.7 trillion in 2026, driven by high demand for capital and reduced bank participation. While offering attractive returns, this rapid expansion—growing at roughly 10-14% annually—is sparking caution over potential risks, including increased "garbage loans" and untested credit cycle. – J.P. Morgan Private bank***
	CSBS Appeals Court Errs in Interest on Escrow Decision (05/06/2026) – Washington, D.C. –The U.S. Court of Appeals for the Second Circuit ruled that New York's law requiring interest payments on mortgage escrow accounts does not apply to national banks because it is preempted by the National Bank Act. This decision ignores the high bar for preemption established by the U.S. Supreme Court in Cantero, by Congress, and by other federal courts. The 2-1 panel decision of the Second Circuit is in direct conflict with the decisions of the First Circuit and Ninth Circuit, which each found that state laws requiring banks to pay interest on mortgage escrow accounts do not significantly interfere with the powers of a national bank. The Conference of State Supervisors agrees with the dissent by U.S. Circuit Judge Myrna Perez, who said "[t]he majority opinion ignores the nature of the federal banking power at issue and recharacterizes the relevant power as broadly as possible to manufacture a direct conflict with state interest-on-escrow laws." Judge Perez went on to say, "By reframing the federal grant of power as enabling national banks to exercise discretion and flexibility, suddenly almost every state law that imposes any restriction on national banks at all necessarily conflicts with the federal grant of power so conceived, risking preemption." ***Comment: While New York law is irrelevant in Michigan, the important concern is the issue of preemption.***
	FRB Senior Loan Officer Opinion Survey on Bank Lending Practices (05/04/2026) – Survey of up to eighty large domestic banks and twenty-four U.S. branches and agencies of foreign banks. The Federal Reserve generally conducts the survey quarterly, timing it so that results are available for the January/February, April/May, August, and October/November meetings of the Federal Open Market Committee. The Federal Reserve occasionally conducts one or two additional surveys during the year. Questions cover changes in the standards and terms of the banks' lending and the state of business and household demand for loans. The survey often includes questions on one or two other topics of current interest.

Technology / Security

	CISA Careful Adoption of Agentic AI Services (05/01/2026) – CISA, in collaboration with the Australian Signals Directorate's Australian Cyber Security Centre (ASD's ACSC) and other international and U.S. partners, released guidance for organizations on adopting agentic artificial intelligence (AI) systems. This guide outlines key security challenges and risks associated with agentic AI, and provides actionable steps for designing, deploying, and operating these systems safely. It helps organizations align AI risk

	management with existing cybersecurity frameworks and strengthen oversight as agentic AI adoption grows.

Open for Comment

Included only when specific to or relevant for community banks to comment on. Date posted may not be the same as the Federal Register Date.

04.08.2026 **Treasury** Permitted Payment Stablecoin Issuer Anti-Money Laundering/Countering the Financing of Terrorism Program and Sanctions Compliance Program Requirements SUMMARY: The Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) and Office of Foreign Assets Control (OFAC) are jointly issuing this proposed rule to implement provisions of the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act). Specifically, it implements the GENIUS Act's directive to treat permitted payment stablecoin issuers (PPSIs) as financial institutions for purposes of the Bank Secrecy Act, proposes anti-money laundering obligations for PPSIs, and proposes certain specific obligations required by the GENIUS Act for PPSIs. It also implements the GENIUS Act's directive to require PPSIs to maintain effective sanctions compliance programs. **DATES: Comments must be received by June 9, 2026.**

04.07.2026 **Joint** Anti-Money Laundering and Countering the Financing of Terrorism Programs SUMMARY: The Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA) (collectively, "the Agencies" or "Agency" when referencing the singular) are inviting comment on a proposed rule that would require banks to establish and maintain effective anti-money laundering and countering the financing of terrorism (AML/CFT) programs reasonably designed to identify, assess, and mitigate risks of illicit finance. The amendments are intended to align with changes that are being concurrently proposed by the Financial Crimes Enforcement Network (FinCEN) to implement provisions of the Anti-Money Laundering Act of 2020 (AML Act). Among other changes, this proposed rule would ensure that institutions establish and maintain effective AML/CFT programs that are intended to better achieve the purposes of the Bank Secrecy Act (BSA), culminating in the development of highly useful information related to illicit financial transactions for law enforcement and national security agencies. Through this rulemaking, the Agencies also intend to modernize and reform Federal supervision of AML/CFT programs by enhancing FinCEN's role in AML/CFT supervision and enforcement. **DATES: Written comments must be received by June 9, 2026.**

04.07.2026 **FDIC** GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions SUMMARY: The Federal Deposit Insurance Corporation (FDIC) is soliciting comment on a proposal that would implement certain requirements pursuant to the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) applicable to FDIC-supervised permitted payment stablecoin issuers and insured depository institutions, clarify deposit insurance coverage for deposits held as reserve assets for payment stablecoins, and clarify the treatment of tokenized deposits. **DATES: Comments must be received by the FDIC no later than June 9, 2026.**

04.01.2026 **FinCEN** Whistleblower Incentives and Protections SUMMARY: FinCEN is proposing a rule to establish a whistleblower program that offers incentives and protections to encourage individuals who have information about potential violations of the Bank Secrecy Act (BSA), International Emergency Economic Powers Act (IEEPA), Trading With the Enemy Act of 1917 (TWEA), and Foreign Narcotics Kingpin Designation Act (Kingpin Act) to voluntarily report such information (the "Whistleblower Program"). The proposed rule would implement section 6314 of the Anti-Money Laundering Act of 2020 (AML Act) and the Anti-Money Laundering Whistleblower Improvement Act (AML Whistleblower Improvement Act),

which were enacted into law as part of the National Defense Authorization Act for Fiscal Year 2021 (FY21 NDAA) and the Consolidated Appropriations Act of 2023, respectively. The Whistleblower Program will contribute to the U.S. government's efforts to safeguard the financial system from illicit use, promote national security, and combat money laundering, terrorist financing, proliferation financing, and related crimes. This notice of proposed rulemaking invites comments from the public regarding all aspects of the proposed rule, as well as comments in response to specific questions. **DATES: Written comments on this proposed rule must be submitted on or before June 1, 2026.**

03.19.2026 **Joint** Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets SUMMARY: The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation are proposing to modify certain aspects of the regulatory capital rule (the proposal). The proposal would revise the risk-based capital treatment of certain exposure categories under the standardized approach, focusing on improving the calibration and risk sensitivity of risk weights that are particularly material to covered banking organizations' lending activities. The proposal would also modify the definition of regulatory capital by removing the threshold-based deduction for mortgage servicing assets for all banking organizations subject to the regulatory capital rule, including Page 2 of 436 banking organizations subject to the community bank leverage ratio framework. In addition, the proposal would require Category III and IV banking organizations to recognize most elements of accumulated other comprehensive income in their regulatory capital. The agencies are concurrently publishing a separate proposal, which would require Category I and II banking organizations to use a new framework to calculate risk-weighted assets, called the expanded risk-based approach, and would allow other banking organizations to elect to use the expanded risk-based approach. **DATES: Comments must be received by June 18, 2026.**

12.17.2025 **FDIC** Approval Requirements for Issuance of Payment Stablecoins by Subsidiaries of FDIC-Supervised Insured Depository Institutions SUMMARY: The Federal Deposit Insurance Corporation (FDIC) is soliciting comments on a proposal that would establish procedures to be followed by an insured State nonmember bank or State savings association (each, an FDIC-supervised institution) that seeks to obtain FDIC approval to issue payment stablecoins through a subsidiary pursuant to the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act). **DATES: Comments must be received by the FDIC no later than May 18, 2026.**