Community Bankers of Michigan Regulatory Dispatch

November 18, 2026

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 Fall 2026.

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

- Interest rate developments could affect both the net interest margin (NIM) and the valuation of securities held by banks. Higher interest rates could also increase commercial refinancing risk.
- Credit risk in the loan portfolios of OCC-supervised banks remains modest overall.
- Banks of all sizes are continuing to explore ways to leverage Super Intelligence (SI). The growing availability and advancement of SI create opportunities to enhance efficiency and internal controls as well as to improve analytics and customize services.
- Employed by threat actors, advanced SI amplifies cybersecurity and fraud concerns.

The OCC reported that profitability for both the federal banking system and banks with assets less than $30 billion (community banks) increased to levels not seen in more than two decades during the first half of 2026. Loan growth, modest expansion of NIM and expansion of non-interest income contributed to robust revenue growth. Lower provisioning for credit losses further supported net income and profitability.

Since the release of the previous SARP, the OCC has continued to reset the OCC's risk tolerance and enhance the risk-based nature of its supervisory policies and practices. Specific actions include the codification of unsafe or unsound practices and expanded eligibility for an 18-month exam cycle for community banks with up to $6 billion in assets. These and other changes aim to focus supervision on material financial risk and reduce exam burdens, especially for community banks.

Related Link

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

CBM Insights

Q: We are looking at a loan of ours trying to figure out if it is HMDA reportable or if it falls under the Commercial – Other purpose exception. The property was purchased with cash by the company we are working with and an individual. The proceeds are being used to buyout the individual and remove them from the deed of trust making the company the sole owner. Would this be considered a 'other' purpose loan since the company is already an owner of the property?

A: These types of transactions are often referred to as 'interest buyouts.' When an 'interest buyout' involves a dwelling that was originally purchased with cash and currently has no outstanding debt (no note or mortgage to satisfy and replace), the transaction falls under specific HMDA guidelines regarding loan purpose and reportability and the bank needs to decide how it will be reported.

A home purchase loan is defined by §1003.2(j) as any loan for the purpose, in whole or in part, of purchasing a dwelling. The Official Commentary §1003.2(j)-1 clarifies that a loan is a home purchase loan if it is used to acquire an ownership interest in a dwelling.

Historically, compliance and lenders debated whether 'interest buyouts' when there is an existing note should be classified as a *Purchase* (due to the transfer of title/ownership) or a *Refinance*. Taking that further, a cash-out refinance is defined by the bank, or the bank uses investor guidelines as their definition for reporting purposes.

Under Comment 2(p) to § 1003.2(p) below, a refinancing occurs when a new dwelling-secured debt obligation satisfies and replaces an existing dwelling-secured debt obligation by the "same borrower". Crucially, the commentary specifies that the 'same borrower' test is met even if only one borrower is common to both obligations (e.g., moving from two co-borrowers on the original note to a single sole borrower on the new note. See below:

4. ***Same borrower.*** *Section 1003.2(p) provides that, even if all of the other requirements of § 1003.2(p) are met, a closed-end mortgage loan or an open-end line of credit is not a refinancing unless the same borrower undertakes both the existing and the new obligation(s). Under § 1003.2(p), the "same borrower" undertakes both the existing and the new obligation(s) even if only one borrower is the same on both obligations. For example, assume that an existing closed-end mortgage loan (obligation X) is satisfied and replaced by a new closed-end mortgage loan (obligation Y). If borrowers A and B both are obligated on obligation X, and only borrower B is obligated on obligation Y, then obligation Y is a refinancing under § 1003.2(p), assuming the other requirements of § 1003.2(p) are met, because borrower B is obligated on both transactions. On the other hand, if only borrower A is obligated on obligation X, and only borrower B is obligated on obligation Y, then obligation Y is not a refinancing under § 1003.2(p). For example, assume that two spouses are divorcing. If both spouses are obligated on obligation X, but only one spouse is obligated on obligation Y, then obligation Y is a refinancing under § 1003.2(p), assuming the other requirements of § 1003.2(p) are met. On the other hand, if only spouse A is obligated on obligation X, and only spouse B is obligated on obligation Y, then obligation Y is not a refinancing under § 1003.2(p).* See § 1003.4(a)(3) and related commentary for guidance about how to report the loan purpose of such transactions, if they are not otherwise excluded under § 1003.3(c).

Because a pre-existing debt obligation secured by the dwelling is being satisfied and replaced, and at least one borrower retains existing ownership interest/liability, the transaction does not qualify as a *Purchase* under HMDA.

The other problem is with the hierarchy. Under the HMDA purpose hierarchy, logically an interest buyout could not be reported as a *Purchase*. If it can't be reported as a Purchase, it's a Refinance/cash-out Refinance. If it does not qualify as a Refinance/cash-out Refinance, the next option is Home Improvement. If it can't be reported as Home Improvement loan, the next option is the "Other" purpose.

However, unlike consumer-purpose loans (which are HMDA-reportable if secured by a dwelling, regardless of purpose), business-purpose loans are ONLY HMDA-reportable if they meet the strict definition of a Home Purchase, Refinance, or Home Improvement loan – meaning Other is not an option.

Bank Management

	FRB American Inequality and the Future of AI - Governor Michael S. Barr (11/13/2026) – *Thank you for the opportunity to speak to you today. In a speech earlier this year, I explored scenarios in which artificial intelligence (AI) could affect economic inequality, for better or for worse. My focus in those remarks was on the AI side of this relationship, and today I would like to return to this topic by first providing some important context about inequality in the United States.* *Inequality is an aspect of every economy, and understanding the extent and evolution of inequality in the United States can help in forming a clear view of the economic outlook and how the economy is likely to react to new developments. Widening inequality may also, depending on many factors, reflect a decline in economic opportunity for many people, which can limit the economy's productive capacity.* *Today, I will begin by summarizing the current state of economic inequality in the United States, assisted by new results from a long-running survey of households conducted by the Federal Reserve, and then show where this fits into the history of inequality over the past century or so. I will explore some of the forces that have shaped inequality, and what these forces may indicate about how AI is likely to affect the way wealth and income are distributed.* ***Comment: While Governor Barr does not mention community banks directly, his analysis of small business competition, household financial fragility, and technology adoption translates directly to the strategic realities facing local lenders across Michigan.***
	FRB Announces pricing, effective January 1, 2027, for payment services the Federal Reserve Banks provide to banks and credit unions, and changes to streamline and adjust their check services (11/12/2026) – The Federal Reserve Board announced pricing, effective January 1, 2027, for payment services the Federal Reserve Banks provide to banks and credit unions, such as the clearing of checks, automated clearing house (ACH) transactions, instant payments, and wholesale payment and settlement services. By law, the Federal Reserve must establish fees to recover the costs, including imputed costs, of providing payment services over the long run. The Federal Reserve expects to recover 101.5 percent of actual and imputed expenses in 2027, including the return on equity that would have been earned if a private-sector firm provided the services. Overall, price changes for 2027 will result in an estimated 1.4 percent average price increase for established, mature services. In addition, the Federal Reserve Banks announced changes to streamline and adjust their check services. As described in the request for information on check services issued last year, the volume of checks processed by the Federal Reserve Banks is declining, but checks remain an important payment instrument for many consumers and businesses. The changes were informed by public feedback and ensure that the Federal Reserve Banks continue to provide check services efficiently. The adjustments include optimizing check processing windows during low-volume periods, increasing fees that banks and credit unions pay to process checks, and other operational updates. These changes do not impact consumers' and businesses' ability to pay with or receive checks and only impact how banks and credit unions process checks with Federal Reserve Banks. The entire 2027 fee schedule for all the Federal Reserve's payment services is published on **FRBservices.org**®. Additional information on the Federal Reserve's payments services, including service usage statistics, is available on the **Board's website**. ***Comment: For Michigan community banks, the Federal Reserve's 2027 payment services changes—effective January 1, 2027—bring a mix of lower electronic connectivity costs and higher check-processing expenses. Because community banks often maintain strong local check volumes from commercial, agricultural, and energy clients alongside standard digital banking tiers, these updates will***

	affect back-office operations and vendor budgets differently depending on your bank's specific transaction mix.
	FRB The Economic Outlook and Some Thoughts on Labor Market Dynamism - Governor Christopher J. Waller (11/10/2026) – *Let me turn to the economy. Economic output continues to grow at a healthy pace. The initial estimate was that real gross domestic product (GDP) rose 3.4 percent in the third quarter, supported by strong consumer spending and robust investment. Consumption growth was helped by a booming stock market, and investment by businesses continued to surge, especially in high-tech equipment associated with the artificial intelligence (AI) buildout. I expect GDP growth is backing off a bit in the current quarter, as consumer spending slows to levels that I think are more consistent with household income and wealth, but output will continue to grow at a solid pace.* *The labor market has also been solid. The unemployment rate ticked down to 4.1 percent in October, the same rate it was over the summer. Job creation, which has been fluctuating widely month to month for some time, saw October gains of 165,000 jobs and 85,000 jobs added to estimates of the previous two months. To look through the volatility, the 6-month and 12-month average payroll gains have been closer to 80,000 jobs a month. This level is a bit above most estimates of the breakeven level needed to keep the unemployment rate steady but entirely consistent with my view that the supply and demand for labor are in rough balance.*

BSA / AML

	FinCEN READOUT: FinCEN Hosts Exchange Event to Combat Overseas Scam Centers (11/09/2026) – **WASHINGTON**—The U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) hosted a FinCEN Exchange focused on combating illicit financial activity associated with transnational scam centers. The event brought together representatives from financial institutions, digital asset industry partners, law enforcement agencies, and other government partners to share information on the financial activities of scam center operations and strengthen public-private collaboration to identify and disrupt the illicit financial networks that support them. Transnational scam centers pose a significant threat to the U.S. financial system and consumers, facilitating large-scale fraud schemes that target victims in the United States and around the world. Scam center operations may also involve human trafficking, forced labor, and complex money laundering networks designed to conceal and move illicit proceeds. Financial institution should be vigilant to these threats and review FinCEN's recent Alert and Financial Trend Analysis on overseas scam centers. This event supports Executive Order 14390, which declared that it is the policy of the United States to protect Americans from, and harden our financial and digital systems against, these threats posed by cybercrime, fraud, and predatory schemes. FinCEN is committed to fostering information sharing and encourages financial institutions to review alerts, advisories, notices, and financial trend analyses to stay informed about the evolving threat posed by nefarious actors, including transnational criminal organizations, that are perpetrating fraud and cybercrime. ***** The FinCEN Exchange program is a statutorily authorized, voluntary public-private partnership that convenes relevant stakeholders, including law enforcement agencies and financial institutions. The program aims to protect our national security and our citizens from harm by combatting money laundering and its related crimes, including terrorism, through public-private dialogue that encourages,

	enables, and acknowledges industry focus on high-value and high-impact activities. The program began in 2017 and was codified as part of the Anti-Money Laundering Act of 2020.

Deposit / Retail Operations

	No news to report this week.

Human Resources

	No news to report this week.

Lending

	OCC Credit Risk: Effect of Guarantor Support on Commercial Credit Risk Ratings (11/10/2026) – The Office of the Comptroller of the Currency (OCC) is issuing this bulletin to provide banks with clarification regarding the treatment of guarantor support when assigning risk ratings to commercial credits. This bulletin focuses on personal or corporate guarantees and does not address U.S. government guarantees. **Note for Community Banks** This bulletin applies to community banks. **Highlights** This bulletin ▪ provides background information about credit risk ratings. ▪ emphasizes that credit risk ratings are based on the specific facts and circumstances of the credit. ▪ emphasizes that credit risk mitigation provided by guarantor support can result in a range of outcomes depending on the circumstances. ▪ explains how guarantor capacity and willingness are considered when assigning a credit's risk rating. ▪ discusses types of guarantees and how characteristics of each can affect the extent of credit risk that is mitigated by guarantor support. **Background** The OCC and other federal bank regulatory agencies use a common risk-rating scale. The regulatory ratings of special mention, substandard, doubtful, and loss identify different degrees of credit weakness. Credits (or portions of credits) that are not rated special mention, substandard, doubtful, or loss are rated pass. There is no formal regulatory definition for pass credits. Similarly, the OCC does not differentiate between various degrees of pass (e.g., pass/watch); however, many banks choose to further segment the pass category by additional risk characteristics. Credit risk ratings emphasize risk of default based on the borrower's expected performance (i.e., the likelihood that the borrower can service the debt) from the primary source of repayment. Guarantor support is generally a secondary or tertiary source of repayment. **Effect of Guarantor Support on Commercial Credit Risk Ratings** A credit's risk rating is assigned based on the specific facts and circumstances of the credit. The extent of credit risk that may be mitigated by guarantor support similarly depends on the specific circumstances. Consequently, guarantor support does not always have the same bearing on a credit's risk rating, and factors notwithstanding the existence of the guarantor support can also positively or negatively affect a credit's risk rating. For example, prudent underwriting is a key consideration when assessing the risk within a credit.

Credit risk mitigation provided by guarantor support can result in a range of outcomes depending on the circumstances. Guarantor support and any credit risk mitigation it provides are assessed relative to the interagency classification definitions. For most credits with well-defined weaknesses, guarantor support alone is generally insufficient to warrant a pass rating. It is more common for guarantor support to result in a special mention rating or preclude a more severe rating (e.g., doubtful or loss) depending on the circumstances. In certain circumstances, however, a strong guarantee can mitigate the risk of default or loss and support a pass rating, despite a credit's well-defined weaknesses. These circumstances generally involve credits with prudent underwriting and guarantors with strong financial positions that mitigate both risk of default and risk of loss.

The guarantor must exhibit the capacity **and** willingness to support the debt for guarantor support to enhance a credit's risk rating. Capacity is demonstrated through analysis of current guarantor financial information and, in most cases, global cash flow analysis. Analysis of financial information generally includes verification of liquid assets. In the absence of current financial information, reliance on guarantor support as a possible risk-rating enhancement is generally precluded. Obtaining sufficient information on the guarantor's global financial condition, income, liquidity, cash flow, contingent liabilities, and other relevant factors (including credit ratings, when available) enables banks to determine the guarantor's financial ability to fulfill its obligation. An effective assessment generally includes consideration of whether the guarantor has the financial ability to fulfill the total number and amount of guarantees currently extended by the guarantor.

A presumption of willingness is usually appropriate until financial support becomes necessary. When financial support becomes necessary, it must be demonstrated to have a positive effect on the credit's risk rating.

Guarantors who attempt to invalidate their obligations through litigation or protracted renegotiations impede rather than improve a loan's collectability. Guarantor willingness to support the credit is not demonstrated in these cases.

Guarantees that are not properly authorized may not be legally enforceable and therefore do not enhance a credit's risk rating. For example, some corporations' bylaws prohibit the corporation from assuming contingent liabilities.

Considerations by Type of Guarantee

The type of guarantee can affect the extent of credit risk that is mitigated by guarantor support. The following are examples of common types of guarantees:

- **Contingent or conditional guarantees** require a specific event to occur or certain conditions to be met before the guarantor is liable.
- **Continuing guarantees, or open guarantees,** extend liability for an obligor's present and future debts.
- **Collection guarantees** extend liability only after default and are conditioned on the creditor first exhausting legal remedies against the obligor.
- **Payment guarantees** extend liability based on the debt's contractual terms. The bank does not have to first seek the primary obligor's performance. This type of guarantee mitigates default risk.
- **Irrevocable guarantees** cannot be terminated without the consent of the other parties.
- **Revocable guarantees** can be terminated by the guarantor without any other party's consent.
- **Declining guarantees** reduce the guarantor's liability as certain conditions are met (e.g., the guarantor's liability declines based on a project's construction progress).

Key considerations when assessing the extent of credit risk mitigation provided by different types of guarantees include the following:

- **Whether the guarantee mitigates risk of default or risk of loss.** Guarantees that mitigate risk of default generally provide stronger risk mitigation.
- **Whether the guarantee is irrevocable.** Guarantees that are revocable by the guarantor without the bank's consent generally do not provide risk mitigation.
- **Whether the guarantee is unconditional.** Conditional guarantees generally provide less risk mitigation than unconditional guarantees. For conditional guarantees, examiners should assess the effect the guarantee would likely have on the credit once the conditions are met.
- **The amount of the guarantee.** Guarantees that are limited in amount generally only provide risk mitigation up to the amount of the guarantee.

For example, an unconditional, irrevocable payment guarantee would generally be the strongest guarantee because it mitigates risk of default, is not conditioned on certain events, and cannot be unilaterally revoked by the guarantor.

Comment: For Michigan community banks, this bulletin serves as an immediate blueprint for evaluating commercial real estate (CRE) and small-to-medium enterprise (SME) portfolios where owner-guarantors are standard. The guidance clarifies how national and federal savings banks in Michigan must balance local relationship lending against strict examiner expectations for credit risk ratings.

Technology / Security

No news to report this week.

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.

09.22.2026 **FDIC** State Bank Parity SUMMARY: The FDIC is proposing amendments to its regulations to recognize parity between out-of-State State banks and national banks concerning the application of host State laws when State banks provide services outside of their chartering State. Under the proposed rule, when host State laws do not apply to a national bank, those laws would similarly not apply to an out-of-State State bank providing services in the host State with or without a branch. Specifically, the amendments would provide that, for purposes of section 24(j) of the Federal Deposit Insurance Act, the laws of a host State apply to any branch in the host State of, or any services provided in the host State by, an out-of-State State bank to the same extent such State laws apply to a branch in the host State of, or any services provided in the host State by, an out-of-State national bank. **DATES: Comments must be received no later than November 23, 2026.**

09.11.2026 **Joint** Proposed Third-Party Risk Management Guidance SUMMARY: The OCC, Board, FDIC, and NCUA (collectively, the agencies) invite comments on this proposed third-party risk management guidance. The proposed guidance would reflect the agencies' supervisory experience and lessons learned through examining banking organizations' third-party risk management practices. In particular, the proposed guidance would discuss the potential benefits that may accrue when a banking organization aligns its third-party risk management practices in relation to the reasonably assessed risk levels specific to each of its third-party relationships. This approach may assist banking organizations in the prioritization of third-party risk management based on material financial risks, compliance with laws and regulations, and resource allocation. The proposed guidance also would help banking organizations consider potential strategies for tailoring their third-party risk management practices according to the banking organization's size, complexity, and risk profile, as well as the nature of its third-party relationships. The agencies plan to rescind and replace existing guidance on third-party risk management to promote consistency and innovation in the banking industry. **DATES: The Federal Deposit Insurance Corporation,**

the Federal Reserve Board, the National Credit Union Administration, and the Office of the Comptroller of the Currency announced that they will extend, until December 16, the comment period for proposed guidance on managing risks associated with third-party relationships. Comments on the proposal were originally due November 16.