“Youth may outrun the old, but not outwit.”

– Geoffrey Chaucer's "Canterbury Tales" characters began their pilgrimage to Canterbury on this day in 1387

In this Issue...

- Community Bankers Provide Insight to Economic Conditions Amid COVID-19
- CSBS: Congress Should Establish Credit Facility for Mortgage Servicers and Reestablish TAG
- FFIEC Announces Federal Disclosure Tools
- Regulators Update BSA/AML Exam Manual
- Podcast: COVID-19 Financial System Updates for April 17

Community Bankers Provide Insight to Economic Conditions Amid COVID-19

By Thomas F. Siems, Ph.D., CSBS Senior Economist

The potential economic impact from COVID-19’s spread into the United States has unsettled community bankers across the nation. Responding to CSBS’ first quarter 2020 survey used to compile the Community Bank Sentiment Index (CBSI), community bankers judged that business conditions and profitability will be significantly worse in the
future as an unprecedented number of companies suspend economic activity. Not only have concerns over economic disruptions been felt on Wall Street, but many Main Streets across America have turned into ghost towns in a very short time.

Overall, for this survey, the CBSI dropped an alarming 32 points from an index reading of 123 last quarter to 91 currently. As shown in the chart below, six of the seven components that make up the index declined, with five components plummeting more than 35 points each. The three components with the lowest index readings include business conditions, falling 37 points from 97 to 60; profitability dropped 43 points from 109 to 66; and monetary policy dove 39 points from 108 to 69. Even with these momentous falloffs, there is some good news in this survey. Community bankers maintain a positive sentiment, albeit by not as much as in the previous survey, to expand operations, increase capital spending, and boost franchise value.

What industries are community bankers most concerned about? Our survey included a
special question asking bankers to provide an outlook for each of 10 economic sectors, ranging from 1 (negative) to 5 (positive). The overall scores using this 5-point Likert scale are shown in the chart below, with the sectors ranked from the highest, or best outlook, to the lowest, or worst outlook.

Community bankers are clearly most concerned about future economic activity in the energy sector and “high-touch” service industries like tourism, restaurants and retail. And based on the recent monthly payroll employment report and the last two weeks of initial jobless claims, the outlook does indeed seem to be bleakest in these sectors as businesses and consumers learn to adjust to an economy that is, in many ways, shutdown.
Because our survey accepted responses throughout the month of March, we were able to also track the responses on a weekly basis and found some revealing trends in bankers’ outlooks for the various economic sectors. The middle of March—say March 11, when the WHO declared COVID-19 as a global pandemic and many U.S. businesses began postponing and cancelling scheduled events—marks a clear turning point in how bankers reassessed the negative impact from the spread of COVID-19. The chart below shows how bankers judged each of the 10 economic sectors included in our survey on a weekly basis. As shown, the outlook for every economic sector deteriorated during the month across the board, but most significantly for consumers (down 1.65 on the Likert scale), restaurants (down 1.58), and tourism (down 1.45).
Our economy depends heavily on the health and confidence of consumers. Gross Domestic Product (GDP) is the value of all final goods and services produced in the economy. In the United States, 70% of our GDP comes from consumption. Without a strong, confident, active consumer, our economy will continue to struggle. But, of course, consumers rely on businesses, both large and small, to provide them with the goods and services they most desire and need. Yet with most businesses forced to shutter, or significantly scale-back operations, revenues have stalled, and cash flow problems have intensified.

And this is where the banking industry can step in and help. I have been greatly encouraged by stories from my friends who are community bankers. For them, this is a great opportunity to help their customers, especially small businesses in their communities, work through a really, really, really tough time.

COVID-19 will end. The economy will recover. In the meantime, as we all navigate the fires of hell from COVID-19’s economic destruction, celebrate and thank your local community banker for helping bridge the gap.

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**CSBS: Congress Should Establish Credit Facility for Mortgage Servicers and Reestablish TAG**

Conference of State Bank Supervisors President and CEO John W. Ryan sent a [letter](#) this week to the chairs and ranking members of the Senate Banking Committee and House Financial Services Committee urging the creation of a credit facility to support nonbank mortgage servicers and asking for the reestablishment of the Transaction Account Guarantee (TAG) program for at least two years.

**Statement by John W. Ryan:**
“The CARES Act provides many provisions that help consumers, but the unprecedented nature of our current national challenge requires more action from Congress. As the state officials with both consumer protection and financial oversight responsibilities, we recognize two specific and urgent needs that will help consumers.

“Mortgage servicers could face servicing advance obligations that far exceed those ever experienced or anticipated due to the sharp rise in unemployment and stay at home requirements. We ask that Congress create a credit facility, administered by the Federal Reserve, as a backstop to ensure servicers can finance the mortgage forbearance promised to customers by the federal government.

“While the CARES Act authorizes the FDIC to reestablish the TAG program, one has yet to be established. We urge Congress to act now to reestablish the TAG program to bring stability and ensure liquidity of banks, particularly smaller banks.”

FFIEC Announces Federal Disclosure Tools

The Federal Financial Institutions Examination Council (FFIEC), on behalf of its member agencies, this week announced the availability of FFIEC Federal Disclosure Computational Tools, including the Annual Percentage Rate (APR) Computational Tool and the Annual Percentage Yield (APY) Computational Tool. The FFIEC member agencies collaborated to develop the Federal Disclosure Computational Tools, which will assist financial institutions in their efforts to comply with the consumer protection laws and regulations.

The APR Computational Tool is designed to streamline the process by which examiners and financial institutions can verify finance charges and annual percentage rates included on consumer loan disclosures subject to the Truth in Lending Act and its implementing regulation, Regulation Z. This web-based tool supports the verification of
disclosed APR calculations related to unsecured and secured installment and construction loans, including real estate-secured loans. The APR Computational Tool also supports verification of compliance with the Military Annual Percentage Rate (MAPR) limits under the Military Lending Act.

The APY Computational Tool supports verification of APYs on consumer deposit account disclosures subject to the Truth in Savings Act, including advertisements and periodic statements.


Regulators Update BSA/AML Exam Manual

The members of the Federal Financial Institutions Examination Council (FFIEC) this week released several updated sections and related examination procedures to the Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual (Manual) that provide instructions to examiners when assessing the adequacy of a bank’s BSA/AML compliance program. The release of the updated sections provides further transparency into the BSA/AML examination process and does not establish new requirements.

The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and State Liaison Committee (Agencies) revised the sections in close collaboration with Treasury’s Financial Crimes Enforcement Network.

Many of the revisions are designed to emphasize and enhance the Agencies’ risk-focused approach to BSA/AML supervision. For example, revisions to the updated sections emphasize the need for examiners to evaluate a bank’s BSA/AML compliance
program based on its risk profile for money laundering, terrorist financing, and other illicit financial activities.

The Agencies made revisions throughout the updated sections to ensure language clearly distinguishes between mandatory regulatory requirements and supervisory expectations set forth in guidance. The revisions also incorporate regulatory changes since the last update of the Manual in 2014. Significant revisions include:

**Risk-Focused BSA/AML Supervision** – The Manual provides instructions to examiners for tailoring BSA/AML examinations to a bank’s risk profile, including examination and testing procedures, and conducting risk-focused testing or analytical reviews.

**Assessing the BSA/AML Compliance Program** – The Manual provides instructions to examiners for assessing the adequacy of a bank’s BSA/AML compliance program and constitutes a minimum set of procedures for full scope BSA/AML examinations. It separates internal controls, independent testing, BSA compliance officer, and training into individual sections.

**BSA/AML Risk Assessment** – The Manual provides instructions to examiners for assessing the adequacy of a bank’s BSA/AML risk assessment processes, including: (i) the identification of specific risk categories (e.g., products, services, customers, and geographic locations) unique to the bank, and (ii) an analysis of the information identified to better assess risk within these categories.

The Manual also provides instructions to examiners that there is no particular method or format a bank must use for the risk assessment and that risk categories can vary based on a bank’s size, complexity, or organizational structure. The Manual also instructs examiners that there is no requirement for risk assessment updates on a continuous or specified periodic basis, but these updates may occur as necessary to align the risk assessment with a significant change in a bank’s risk profile.

**Developing Conclusions and Finalizing the Exam** – The Manual reminds examiners
that banks have flexibility in the design of their BSA/AML compliance programs, and minor weaknesses, deficiencies, and technical violations alone are not indicative of an inadequate program.

New and revised sections of the Manual are identified by a 2020 date in the table of contents and on the FFIEC BSA/AML InfoBase. The Agencies continue to review and revise the remaining sections of the 2014 edition of the Manual. Updates to the remaining Manual sections will be released in phases.

Attached:
**Interagency Statement**
**FFIEC BSA/AML Examination Manual Updates**

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**Podcast: COVID-19 Financial System Updates for April 17**

First it was their regulators, then it was the industry themselves, and now it is members of Congress: there's increasing agreement that something needs to be done to help mortgage servicers while a record number of unemployed are seeking mortgage forbearance. America is now at 22 million unemployment claims in four weeks. We talk about the new jobless claims, how what states they are most concentrated in, and how community banks play a role in understanding the economy. And, a reminder to consumers to watch out for common scams as they receive their stimulus checks.