FORsights™

ABA Washington Summit Takeaways

The American Bankers Association (ABA) recently hosted its semiannual national summit. Forvis Mazars was proud to be a premier sponsor for this event that brought together 1,400 senior banking officers, state banking examiners, and high-ranking federal bank regulators. Here is a summary of notable highlights from the FDIC, the U.S. Department of the Treasury, and the Office of the Comptroller of the Currency (OCC).

FDIC

Acting chair Travis Hill presented an update on various policy issues. The agency has already made several substantial changes. In March, the FDIC rescinded the 2024 agency statement on bank merger policy, delayed implementation of the signage rule, and withdrew several proposals (deposit broker definition, corporate governance, incentive compensation, and notice requirements for share acquisition of a depository institution holding company).

- **Asset Thresholds**. The $10 billion threshold for smaller banks has not been adjusted since the 2008 financial crisis. The FDIC is inventorying and analyzing the various thresholds used and considering different options for indexing to reflect inflation and macroeconomic and industry growth.
- **Resolution Planning**. Hill was clear that the 2024 resolution plan updates incorporated the wrong lessons from the 2023 bank failures. Bridge banks failed to stem deposit outflows. For large institutions, the FDIC's goal should be "maximizing the likelihood of an optimal resolution, which past experience has indicated to be a weekend sale." A forthcoming FAQ will clarify several points in the insured depository institution (IDI) rule:
  - Waive the expectation that banks identify and build their plans around a hypothetical failure scenario.
  - De-emphasize and broaden the strategy discussions.
  - Resolution plans should focus on providing the FDIC information to market and operate the institution for a short period of time.

The FDIC will also conduct outreach with large banks to improve the acquisition process as well as nonbank bidders to facilitate their ability to partner with banks on bids and to bid individually on particular asset pools.

- **De Novo Bank Formation**. The number of bank charters has declined to 4,500 from 8,500 in 2008. Mergers and failure activity have not been replaced with new bank formation. In the last 15 years, only 86 new charters have been approved. Hill set forth some ideas to spur growth:
  - Identify scenarios where certain applicants may be subject to adjusted standards, including upfront and ongoing capital expectations. Currently, Tier 1 capital-to-assets leverage ratio is required to be 8% for the first three years.
  - Extend deposit insurance coverage for fintechs with a large number of deposits.
- **Digital Assets & Blockchain**. The FDIC has already withdrawn guidance on prior notification and preapproval for certain crypto activity. Under the premise that "deposits are deposits regardless of the technology or recordkeeping deployed," the agency is analyzing the following issues:
  - Comprehensive identification of permissible crypto-related activities.

    - Prudent guardrails for bank interaction with public chains.
    - Review pass-through deposit insurance regulation to clarify requirements for deposits that serve as stable coin reserves.
    - Help ensure that technology can stop the flow of funds via blockchain at the point of a bank's failure.

Treasury Department

Treasury Secretary Scott Bessent presented his views on substantive regulatory reform to help community banks.

- New banking regulations should take economic growth into account.
- Categorical exemptions of community banks from some regulations, notably internal controls on third-party risk management and information security.
- Refocus bank supervision on material financial risks.
- Define "unsafe and unsound" by rule using more objective measures rooted in financial risk.
- Liquidity framework:
    - Expand the role of loans and other assets as collateral for funding during market stress.
    - Remove examiner bias toward reserves over other liquidity sources. Liquidity buffers should be buffers and not a regulatory minimum.
- The anti-money laundering and countering the financing of terrorism (AML/CFT) framework should focus on national security priorities and higher risk areas. Changes should explicitly permit financial institutions to de-prioritize lower risks.
- Reform depository insurance with potentially higher limits for business payment accounts.
- Foster competitive parity between banks and nonbanks.

Bank Regulatory Panel

A panel discussion included Michael Brickman, OCC acting senior deputy comptroller for the Office of Management; Bethany Manning, FDIC assistant regional director; and Michael Ravid, an assistant vice president at the Federal Reserve Bank of Boston. The panelists had several consistent themes:

- Liquidity Strategy. Some banks are still using pre-COVID-19 strategies to manage liquidity risk. Fed discount window and Federal Home Loan Bank borrowing can be part of a diversified risk strategy. They are no longer considered lenders of last resort. Banks should run various scenario analyses and test operational readiness (collateral identified, authorized employee names are up to date, etc.). Money moves quickly, and banks should have a plan to replace funding at the same pace.

- Appraisals. There have been fewer transactions to benchmark comparable transactions. Each of the regulatory agencies acknowledged this was a real problem, but there were no immediate plans to update the 2016 interagency advisory statement.[1] Ravid noted that his office was considering hiring in-house appraisers.
  - Commercial Real Estate. Suburban markets continue to be stronger than downtown locations. For loans coming due, higher interest rates and debt service have been offset by rent increases.
- The *Economic Growth and Regulatory Paperwork Reduction Act of 1996* (EGRPRA) requires that regulations from the Federal Financial Institutions Examination Council, OCC, FDIC, and Federal Reserve be reviewed by the agencies at least once every 10 years to identify outdated or unnecessary regulations and consider how to reduce regulatory burden on IDIs. The latest cycle began in 2024, and multiple public forums will be held to solicit feedback in 12 categories, including applications and reporting, powers and activities, international operations, consumer protection, and money laundering.
- It is too early to tell the impacts of tariffs.

OCC

Brickman highlighted the recension of the 2023 *Community Reinvestment Act* (CRA) Final Rule and planned proposal to reinstate the OCC CRA issued in 2021. The proposal will include new types of activities to qualify for the CRA. The OCC also rescinded Interpretive Letter 1179 that required bank supervisor notice and approval for certain crypto asset activities. Other crypto guidance is under review.

FDIC

The agency is likely to have more on-site exams. Forvis Mazars has already begun to see this in both our consulting and audit practice.

Conclusion

In the heavily regulated banking industry, leaders face more challenges than ever, from managing shareholder and regulatory expectations to pursuing digital innovation. Forvis Mazars can help your financial institution tackle issues inherent to the industry, including market growth, internal control threats, industry consolidation, and compliance. We have the experience in financial services that you can trust. Combine our focus on **Unmatched Client Experience**® with the resources of a global firm and you will find that Forvis Mazars is the trusted advisor your institution needs. Having a resource in this changing environment is vital to the banking industry, and assisting institutions of varying sizes is our passion and privilege. Serving you is our passion and privilege.

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[1] Although the sales comparison approach is the most used valuation method, in areas where there have been few—if any—recent comparable sales of similar properties in reasonable proximity to the subject property, the person who performs an evaluation may consider alternative valuation methods and other information for developing an evaluation and supporting a market value conclusion. For example, the cost approach to valuing real property might be appropriate, particularly if the property is newer construction. Similarly, for an income-producing or rental property, the income approach could be appropriate to support a market value conclusion in an evaluation. There are many sources of information available to financial institutions that describe the valuation processes applicable to income-producing properties. Guidelines detail the possible use of several analytical methods and technological tools, such as automated valuation models and tax assessment values. To use one of these methods, an institution should be able to demonstrate that the valuation method is consistent with safe-and-sound banking practices and the Guidelines. The Guidelines detail expectations for selecting, using, and validating an analytical method or technological tool. Institutions should establish policies and procedures that specify the supplemental information that is required to develop an evaluation.

Contributors

Shaun Harms
Principal, Financial Services Regulatory
shaun.harms@us.forvismazars.com

Anne Coughlan
Director
anne.coughlan@us.forvismazars.com