FORsights™

Banking Regulatory Update – February 2025

Forvis Mazars has summarized Washington, D.C. February activity to help keep you up to speed on this quickly evolving regulatory environment. This edition includes updates on federal staffing, the FDIC, the National Credit Union Administration (NCUA), the Consumer Financial Protection Bureau (CFPB), and SEC banking insights, along with a fall in consumer sentiment. This article is current through events of February 27, 2025.

Federal Staffing

As multiple unions continue legal challenges over the termination of federal employees across various agencies, the directors from the Office of Management and Budget (OMB) and the Office of Personnel Management announced more details operationalizing the workforce optimization executive order. Agencies have until March 13, 2025 to develop reorganization plans, including cost efficiencies, reduction in force plans, and a list of essential positions. Phase two deliverables due by April 1, 2025 include new organization charts and plans to move offices out of Washington, D.C.

On February 16, 2025, President Donald Trump signed an executive order, "Commencing the Reduction of the Federal Bureaucracy," that—among other items—eliminated several advisory committees, including the FDIC's Advisory Committee on Community Banking (CABC), and the CFPB's Academic Research Council and the Credit Union Advisory Council. The CFPB had previously eliminated its Community Bank Advisory Council. The CABC provided the FDIC with advice on policy issues impacting small community banks, with a focus on rural areas. The FDIC still has two other advisory committees: the Advisory Committee on Economic Inclusion, focused on expanding banking services to underserved populations, and the Systemic Resolution Advisory Committee, focused on banks identified as systemically important financial institutions.

FDIC

On January 25, 2025, the FDIC released the Fourth Quarter 2024 Quarterly Banking Profile. Highlights include:

- Return on assets and net income improved from 2023. However, community banks' net income was down 2.4% year over year driven by increases in noninterest expense and credit provisions. For the fourth quarter, net income for community banks decreased 6.5% due to higher non-interest expense and realized securities losses.
- Net interest margin rose across all asset-size groups.
- Asset quality remained generally favorable. Past-due and nonaccrual (PDNA) loans as a percentage of total loans increased to 1.60% (still below the pre-pandemic average of 1.94%). The PDNA ratio for non-owner occupied commercial real estate loans declined slightly to 2.02%. The net charge-off ratio increased to 0.7% over the quarter and above the pre-pandemic average. The credit card net charge-off ratio rose to 4.57% in the fourth quarter.

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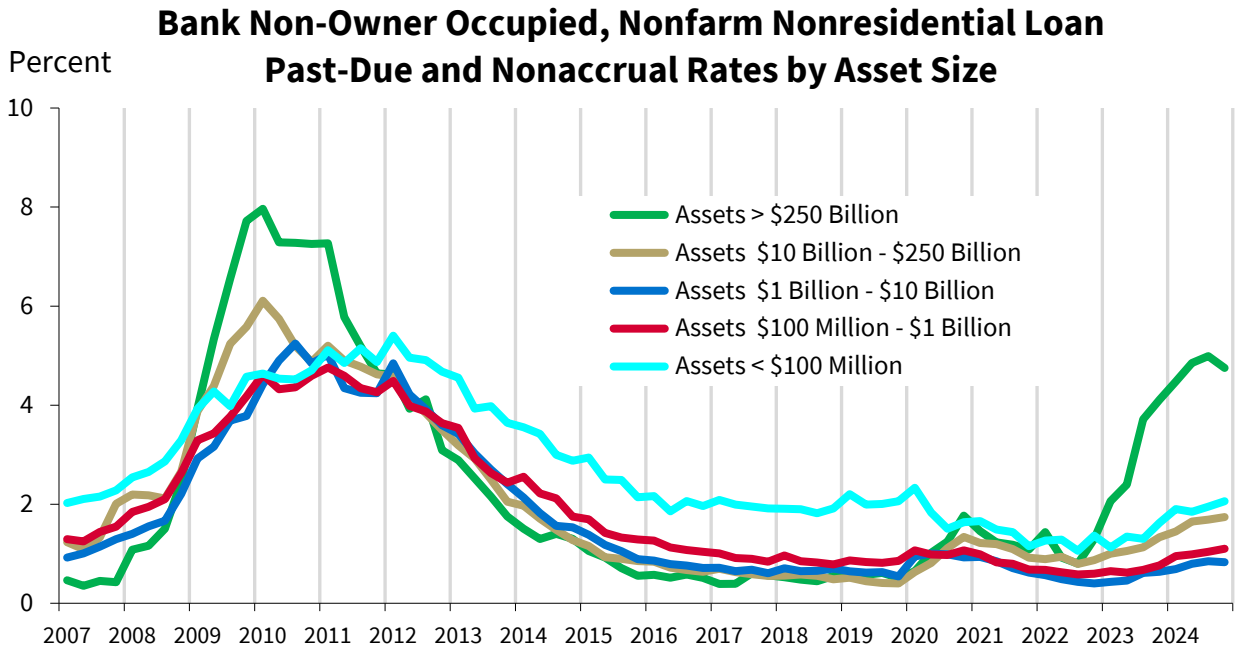
FDIC Acting Chair Travis Hill issued a statement modifying the Problem Bank List to only report the number of problem banks and no longer report the aggregate assets of the banks on the list, to prevent identification of the banks, as well as prevent disorderly runs by depositors.



Source: FDIC

NCUA

The NCUA recently released its exam priorities for 2025, which are consistent with 2024:

- Credit Risk
- Balance Sheet Management
- Cybersecurity
- Consumer Financial Protection

CFPB

On February 10, 2025, the U.S Court of Appeals for the Fifth Circuit indefinitely paused the compliance deadline for Rule 1071, a requirement to collect and report data on credit applications by small businesses, after CFPB counsel did not oppose the request for delay.[1] An X post announced a CFPB tip line to report any activity that violated the stand-down order.

[1] "CFPB's 1071 rule again paused by court in ICBA case," icba.org, February 10, 2025.

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After the recent turmoil at the bureau and nontraditional cabinet choices, Trump's pick for the CFPB Director, Jonathan McKernan, has banking experience. McKernan has previously served on the FDIC board as well as advisory positions at the U.S. Department of the Treasury and the Federal Housing Finance Agency. McKernan served as counsel to Pat Toomey on the Senate Committee on Banking, Housing, and Urban Affairs. As McKernan's first round of nomination hearings were underway, the CFPB dismissed several high-profile cases with prejudice, meaning they cannot be refiled.[2]

Financial institutions should continue to comply with all applicable laws and regulations. Requirements enforced by the CFPB also may be enforced by other governmental authorities, including state regulators.

SEC

Based on previous administration transitions, nominee Paul Atkins' approval as SEC chair could happen as early as March or April. At the time of this publication, his confirmation hearing has not been scheduled. Although Atkins and Commissioners Mark Uyeda (acting chair) and Hester Peirce have worked together previously, rulemaking may be slower than initially anticipated. On February 18, 2025, Trump signed an executive order, "Ensuring Accountability for All Agencies," requiring independent agencies—including the SEC—to submit draft regulation to the president's Office of Information and Regulatory Affairs for review before **Federal Register** publication.

"No employee of the executive branch acting in their official capacity may advance an interpretation of the law as the position of the United States that contravenes the President or the Attorney General's opinion on a matter of law, including but not limited to the issuance of regulations, guidance, and positions advanced in litigation, unless authorized to do so by the President or in writing by the Attorney General," according to the order.

In response to Trump's executive order, "Return to In-Person Work," the SEC has notified union staffers to return to office beginning April 1, 2025.[3] The union representing SEC employees will challenge the mandate, as it violates a 2023 collective bargaining agreement that allows for remote work, but has advised its members to plan to comply with the order while litigation is underway.

Consumer Sentiment

The University of Michigan released its February 2025 report on Surveys of Consumers, indicating a continued slide in consumer sentiment.[4] "The decrease was unanimous across groups by age, income, and wealth. All five index components deteriorated this month, led by a 19% plunge in buying conditions for durables, in large part due to fears that tariff-induced price increases are imminent. Expectations for personal finances and the short-run

[2]"The CFPB drops its enforcement lawsuits against Capital One, Rocket Homes and more," apnews.com, February 27, 2025.
[3]"SEC calls staff back to office in April," politicopro.com, February 26, 2025.
[4]"Surveys of Consumers, University of Michigan," sca.isr.umich.edu, February 2025.

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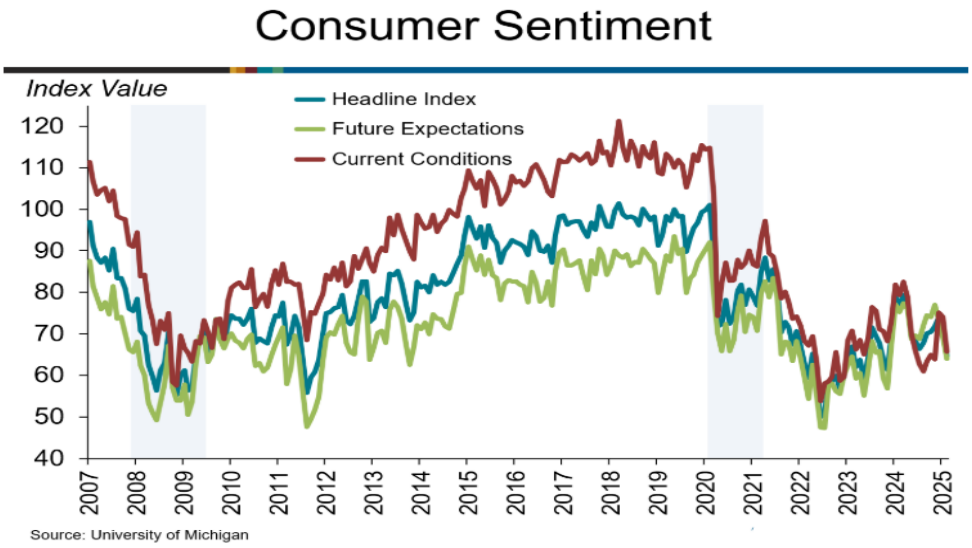
economic outlook both declined almost 10% in February, while the long-run economic outlook fell back about 6% to its lowest reading since November 2023.



Source: University of Michigan

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. Serving you is our passion and privilege.

If you have any questions or need assistance, please reach out to a professional at Forvis Mazars.

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