

S. 3502 The Community Bank Regulatory Relief Act

In response to the unprecedented impact COVID-19 is having on the American economy, financial institutions should be given targeted regulatory relief to ensure they have the flexibility and resources available to meet the lending and banking needs of their customers.

S. 3502, the Community Bank Regulatory Relief Act, makes two minor commonsense regulatory changes. They are:

1. Lowers the CBLR to 8% from its current level of 9%. Please note the FED, FDIC and OCC were given a range of 8% to 10% to set the CBLR. The change would occur within 7 days of being signed into law.
2. Delays the implementation of the cumbersome CECL accounting standards to December 2024 from its current date of 2022 for community banks.

Background CECL: On January 1, 2020, the Financial Accounting Standard Board's (FASB) Current Expected Credit Loss (CECL) standard, made sweeping changes to how banks estimate the allowance for loan losses. The standard is inconsistent with the economics of lending, restricts capital without necessarily mitigating risk, and injects uncertainty and unpredictability into credit loss decisions. Even in a benign credit environment, bank balance sheets and the pricing and structure of credit must continuously adjust to the fluctuations created by CECL, which adversely impacts financial stability, consumer lending, financial markets, and the U.S. economy.

Notably, these negative impacts will be more severe during times of economic stress, which is when consumers and small businesses need credit most. As a result, the threats to the U.S. economy and financial stability associated with **COVID-19** will be exacerbated by CECL. As projected losses mount and credit tightens, measures to address and prevent severe economic impacts of **COVID-19** should include an immediate moratorium on CECL. Under the previous accounting standard, financial institutions would forecast losses 12 months to 18 months before they happen. Now, they have to predict and account for all losses 5, 10, or even 30 years from now. In the present rapidly changing economic environment, it's challenging to predict what is going to happen in hours if not days – how is it feasible for economic forecasters to accurately estimate losses that may occur in a decade or three decades? CECL runs counter to the banking regulators' goals of promoting stability in the financial sector and ensuring credit availability during times of stress. **Basically, the more capital banks are forced to hold, the less they are able to lend when consumers and small businesses need it most.**

Background (CBLR)

One of Congress's primary objectives in enacting S. 2155 was to provide community financial institutions with regulatory relief. To that end, Section 201 of S. 2155 required the Federal Deposit Insurance Corporation, Federal Reserve Board, and Office of the Comptroller of the Currency (collectively, the "federal banking agencies" or "agencies") to develop a community bank leverage ratio ("CBLR"), in consultation with State bank supervisors, for qualifying financial institutions. Congress recognized that the capital regime has grown increasingly complex over time, presenting particular challenges to small community banks. Congressional intent was clear -- simplify the capital regime for qualifying community banks as a means of providing these institutions with regulatory relief.

Lowering the current CBLR from its current 9% to 8% will give community banks extra resources to meet the financial needs of their customers during this economic turmoil. Refusing to lower this rate will force banks to hoard capital and ultimately increase the cost to taxpayers to meet the needs of producers and small businesses.