

Record of Meeting

Community Depository Institutions Advisory Council
and the Board of Governors

Friday, November 8, 2019

1. **Current Banking Conditions:** *What is the Council's view of the current condition of, and the outlook for, loan markets and financial markets generally? Please describe any significant changes in the creditworthiness of applicants for loans, loan demand, and lending standards in general.*

- a. **Small Business Lending:** *Has credit availability for, and demand for credit from, small businesses changed significantly? Have lending standards for these borrowers changed?*

Small business lending demand remains solid, with competition driving rates down. Council members noted that they are competing against larger banks and nonbank lenders that are providing low-interest rates and longer terms for commercial real estate (CRE) loans. Credit quality remains good, and a large number of small fixed rate business loans are being refinanced at lower rates early in their lifecycle. Also, the strong credit quality of small business loans is resulting in some lenders opting for conventional underwriting for some loans, thereby skipping SBA qualification processes altogether. A few Council members noted an increase in loan volumes at the \$50K to \$200K level, and even as high as \$500K. Council members also noted “regionalization impacts,” with increased loan demand in areas experiencing strong population inflows (such as in Florida and Texas). Metro areas (e.g., D.C., Richmond, Atlanta, and cities in North Carolina and southern Florida) are seeing “gangbuster” growth in business loans; however, in some interior and more rural areas of the country, loan growth has slowed.

- b. **Commercial Real Estate Lending:** *Have there been any changes in the Council's view of challenges in the commercial real estate market since the last Council meeting in April? How are commercial real estate loans performing compared to the Council's expectations?*

CRE lending continues to be strong, with rents and occupancy levels rising. Lending in metro areas and academic communities is very strong. Competition and a favorable rate environment have led to a great deal of refinancing. While cap rates were reported as being stable, underwriting standards were considered to be weakening, and cash-out refinancings were increasing. Concerns were raised by some Council members about appraisal quality, as appraisals are too often based on out-of-market comparables and in some cases driving cash-out refinancing. The hotel and hospitality sector is weaker in most areas, with too many rooms and increasing competition from Airbnb; this is the only sector in which some defaults have occurred and the Council identified the hospitality/hotel sector as an increasing risk in CRE lending. One Council member noted that new rent-control laws in New York City (e.g., rent caps, lower caps on “capital improvement” tax credits, legal restrictions on the use of credit references, and apartment rental eviction protections) are having a major disruptive effect on the rental market. All of these factors are raising the risk and uncertainty associated with multifamily lending in affected areas, contributing to the relocation of investment capital out of New York metropolitan areas and other heavily regulated markets toward more growth-friendly states. The Eleventh and Sixth Districts

reported a contrasting picture, with a large influx of people and investment capital contributing to a rapidly growing commercial real estate sector. In some cases, CRE loans are being sold among banks to keep concentration limits within regulatory thresholds. Some Council members noted concerns that luxury real estate is overbuilt and that higher tariffs are affecting foreign trade and curtailing demand for new warehouses near ports of entry. Conversely demand for warehouse space located closer to the end-user was increasing as logistical systems evolve to support faster deliveries to consumers needed to support growing internet sales. Some Council members expressed concerns about gauging how much additional dispersed warehouse space would be needed to support faster delivery capacity.

- c. **Construction Lending:** *What is the Council's view of the availability of credit for construction and development projects? Have Council members seen any changes in the demand for construction loans since the last Council meeting in April?*

The Council noted that construction is healthy in most commercial and residential categories. Credit remains readily available, and not much has changed since the last meeting. Higher costs for materials and labor along with permitting costs are resulting in higher prices for new construction, which creates some headwind that is being outstripped by demand. This headwind seems to have the greatest impact on construction of lower-priced homes. Partly for this reason, the First and Second Districts noted that less new housing is being built and that old housing is being upgraded. In the Third District, this dynamic was said to be driving a big increase in pre-fab construction, both in housing and commercial properties with quality being viewed as good as or better than existing construction techniques. Construction demand was especially strong in the Sixth and Eleventh Districts given the high population growth in lower-tax states.

The Eleventh District noted a large expansion in construction lending in Texas that is now expanding outside of the cities. In some rural areas around Austin, 100% financing was not uncommon. In many cases, non-bank lenders are providing permanent financing before construction is finished. Nevertheless, most Council members reported a continuing differential with construction development in rural areas lagging that in metro areas. As overall construction lending portfolios expand in total, more institutions are intensifying their focus on capital and risk management issues.

- d. **Home Mortgage Lending:** *What changes has the Council seen in the mortgage market since the last Council meeting in April? Is a trend developing among community banks to increase, decrease, or cease home mortgage originations, and if so, what are the likely causes for and effects of this trend?*

Mortgage rates have declined. As a result, low rates have boosted residential mortgage lending and refinancing, and earning assets and fee income have grown. Some Council members report a loosening of credit standards, in large part due to nonbank competition in the mortgage market. The Council noted that some banks are increasing their mortgage books and catching up to nonbank competitors, especially through the assistance of improved technology platforms that can help community depositories compete with non-bank lenders. Community institutions need technologies to lower origination costs as well as sufficient loan volume to meet economies of scale; those that do not improve cost and

volume thresholds will likely have a difficult time profiting on home mortgage businesses due to costs associated with regulation and compliance.

The Twelfth District noted that mortgage lending has increased; however, margins are not increasing and there are higher compliance costs associated with purchase money refinancing mortgages (around \$9K per mortgage). On a positive note, Council members reported that mortgage loans are closing more quickly at banks, which is a trend that helps to control costs. The Third District noted that residential lending will incur an additional cost due to implementation of the “current expected credit loss” (CECL) accounting standard in coming years. The Sixth, Ninth, and Twelfth Districts all noted that banks are holding more loans on their books. Despite these offsetting factors the Council finds that mortgage lending conditions have improved across the board, though questions about management of the GSE conservatorships and the future regulation of secondary mortgage markets pose risk factors.

*e. **Consumer Lending:** What changes have Council members seen in consumer lending?*

The Council finds that consumer lending is flat, but portfolios are performing well. One exception is auto lending, which is down in volume due to a decline in auto sales. Fewer community institutions are active in consumer lending, but those that are have been successful. Consumer portfolio returns have declined modestly reflecting tighter margins in a declining rate environment. On the positive side, delinquency and charge-offs have been dropping. The Second District noted that charge-offs are almost at zero.

Home equity lending was reported as generally flat, though in some more urban markets, home equity loans had increased reflecting higher levels of home renovation. The overall sentiment is that the consumer is doing well. However, some Council members noted that the consumer is beginning to charge nontraditional costs, such as rent and other expenses, to credit cards, possibly a leading indicator of future consumer hardship. However, most consumers are still relatively conservative and have adequately strong balance sheets.

*f. **Agricultural Lending:** Have there been any changes in agricultural lending?*

Agricultural lending was reported as being in its fifth year of decline with no prospects for improvement. The trade tariffs imposed by China on U.S. agricultural products have weakened the agricultural sector. Conversely, the market facilitation of payments (agricultural tariff subsidies) has offset some of these effects. Some Council members reported the tariff cost at \$70 per acre. Farm balance sheets are adequate, but asset return is lagging. Farmers are struggling to generate cash flow. This problem is most acute for smaller farms. These factors have combined to exacerbate carry-over debt levels and prospects for servicing such debt. The Council suggested there is little room for error on farmers’ balance sheets. While land values have been holding, land itself won’t service carry-over debt, unless sold.

Protein production is also struggling, and there is a lot of pressure on poultry. Land prices and debt obligations remain problematic, and banks are working closely with their customers to help them weather the current cycle. Lagging asset returns have not resulted in land sales to improve farm balance sheets, and competition from the Farm Credit System continues to strain bank portfolios due to loan pricing that is not aligned with market risk.

g. *Deposits: Have Council members seen any changes in local deposit markets?*

Council members noted that competition continues to be intense for deposits, with liquidity being the number one concern of many banks. The Council believes this pressure will continue. One Council member noted that even with three 25-basis-point cuts in rates, the cost of funds rose 1 basis point. Unfortunately, margins have declined in the lower-rate environment.

The Council is concerned that nonbank companies are raising funds with fewer know-your-customer requirements or concern about privacy laws. Online firms working to gain market share are driving up the cost of funds for all banks, and larger banks are using cash incentives for customers to open new accounts. This situation is creating problems for community institutions. The Council recommends that the Federal Reserve collaborate with the other regulatory agencies to rethink community bank liquidity requirements and be more sensitive to all sources of funding, such as non-callable Federal Home Loan Bank advances used to match fund loans. Similarly, internet deposits and internet Certificates of Deposit should be more closely studied to determine their true sensitivity to pricing pressures. Council members stressed that diverse deposit sources have succeeded in providing community banks with long-term stable funding and that the agencies should look beyond the historic loan-to-deposit- ratio and better determine the quality of internet deposits and non-callable FHLB funding. Finally, Council members believe that the national rate cap restriction is not functioning correctly and is inhibiting deposit growth at community institutions, where deposit rates paid are often consistently above the national rate caps, which are overwhelmingly impacted by the rates paid by the money center banks.

2. Economic Discussion:

a. *Overall Economic Conditions: How do Council members assess overall economic conditions in their regions?*

The overall economic outlook remains generally positive for Council members, although several Districts reported sentiment as being cautiously optimistic and others viewed the current situation as more fragile. Council members noted that certain pockets of the country, along with certain sectors, are doing better than others. Manufacturing and auto sales have disappointed, especially after the strong auto sales of the last few years. Business conditions differ by region, with a pronounced divide between urban and rural areas, and policy uncertainties are resulting in delays in business investment.

The tightness of the labor market is also having an impact on Council members' businesses. Wages are pushing higher, and health-care costs are increasing at an even faster rate. Prices and input costs are rising, especially for labor raw materials and other inputs. The consumer is generally healthy, although mid-level consumers appear to be more confident than those at the high end.

b. *Particular Indicators:*

i. *Inflation: Are the prices of products and services rising (or declining) more or less quickly than in the recent past? Are the prices for the products and services Council members purchase rising more or less quickly?*

Council members believe that inflation is higher than the headline numbers are indicating. In many lines of business, it is evident that prices are rising faster than the headline figure. Automation and the composition of the labor force may be two reasons that the national inflation numbers differ from what bankers and their customers are experiencing. Numerous Council members also agreed that gauging productivity is difficult, which may be another factor affecting the inflation picture.

Wage growth has slowed slightly, with the exception of businesses paying up for new hires. Wage pressure has been most pronounced in rural areas, where there is a lack of skilled labor. Council members noted that the costs of many products, including health care, food, education, and construction, are rising. However, costs in the retail sector may be capped due to factors such as the growth of online retail delivery.

ii. *Housing: How have house prices changed in recent months? Have there been any changes in housing activity overall in Council members' regions?*

Housing activity has changed little in most markets since the last Council meeting. There continues to be a shortage of supply, especially in affordable housing. The housing market appears to be moving sideways.

Housing activity slowed due to rising mortgage rates but has rebounded as rates have come back down over the past few months. Activity varies by region, as metro areas are performing better than most rural areas. The market has continued to be bifurcated between the lower-middle end and the high end. Smaller, lower-cost homes are selling incredibly fast, and prices are increasing. The high end of the market has stagnated as it continues to be difficult to sell larger homes, especially in states affected by the recent limitation of the deductibility of state and local taxes (SALT).

As the millennial generation continues to age into its household-formation years, pressure will continue on the lower-priced end of the market. Demand has outstripped supply, especially for starter homes. There is little new construction of these homes, and the inventory that is available needs work, making them less appealing and more expensive than they might appear.

The primary reason for the lack of homebuilding is rising input costs. Raw materials, infrastructure, and labor costs have increased, making it less profitable to build homes, especially lower-priced ones. Council members also noted that lot costs and permit pricing have increased significantly, exacerbating the situation.

iii. *Labor Markets: How have the labor markets in which Council members operate changed in recent months? In particular, assess the degree of job loss or gain (how much and in which industries). What changes to wages have Council members observed in the past year?*

With the continued economic expansion, all Council members reported that labor markets remain very tight. Competition to find workers is strong, and businesses need to bid up to attract high-quality workers. Retention has increasingly become a problem, as employees with as little as a year of experience in a position are being poached by other companies. Wage growth continues to accelerate, while the cost of benefits has grown at an even faster rate.

A major area of concern that has continued to impact the labor market is the opioid epidemic. Banks and other businesses are having a difficult time finding workers who are drug free, especially in areas such as the Rust Belt and the Northeast.

Additionally, Council members discussed the impact of changing business needs on the labor market, both in banking and other sectors. Demand has grown for certain types of qualified and experienced workers, including information technology workers--a particular concern for banks, which need to constantly update and adapt their technologies.

Council members expressed the view that the labor market has become a hindrance on the potential growth of the economy. With workers in such short supply and an aging population, Council members highlighted the need for policies that promote participation in the labor force and development of job skills.

iv. ***Consumer Confidence:** Is the Council seeing signs of improved consumer confidence? What is the outlook for consumer credit losses?*

Most Council members witnessed a slight improvement in levels of consumer confidence since the last meeting. Consumers are moderately more optimistic and continue to spend. Jobs remain plentiful, and incomes continue to grow. Some Council members noted that consumers may not necessarily be more confident but rather less uncertain than they were earlier in the year.

Consumer credit quality remains strong. Delinquencies remain at historically low levels for most categories of credit. However, one exception is the agriculture sector, in which credit quality has deteriorated as the sector has suffered over the last year. Council members noted that student loan debt continues to be a concern, as it potentially hinders other types of lending and slows overall economic growth.

3. **Faster Payments:** *At the April 2019 meeting, Council members noted that the Federal Reserve should take a proactive approach towards innovation in the payment and settlement arena to ensure a level playing field for community banks. In August, the Federal Reserve announced that it would build a new payment and settlement service for 24x7x365 real-time payments, called the FedNow Service. The new service will support banks' provision of around-the-clock, real-time payments (that is, "faster" payments) to their customers. Consistent with current Reserve Bank services, the FedNow Service will be available to banks eligible to hold accounts at the Reserve Banks. Participating banks will be able to designate a service provider or agent to submit or receive payment instructions on their behalf. Participating banks will also be able to settle payments in the account of a correspondent bank, if they choose to do so.*

What actions do Council members believe that community banks will need to take to accommodate real-time payment processing on a 24x7x365 basis within the next few years? To what extent have community banks begun to make this transition from an operational standpoint? What actions can the Federal Reserve take to assist community banks in preparation for adopting the FedNow Service? What features of the new service will be most important for community banks?

The community banking sector appreciates that the Federal Reserve is becoming an operator through FedNow. We believe that having competing service providers will result in improved faster-payment solutions.

Community banks rely on core service providers to maintain their ledgers, facilitate payments, and manage loans. These technology providers make it possible for banks to serve their customers. But these providers usually are not quick to embrace change and large technology projects, which presents a challenge to the banks who use them.

Community banks that wish to offer faster-payments solutions will need to closely manage their relationships with core service providers to speed implementation. Core service providers offer new services in waves to their banking customers. Therefore, community banks that want to be early adopters of a new service will need to push their core service provider to move to the front of the line for implementation. Currently, implementation bottlenecks are limiting the pace of change.

Several community banks have begun the process to adopt real-time payments through RTP, The Clearing House's real-time payments network. Working with their core service providers, these community banks hope to process live transactions in 2020.

Community banks are also educating themselves about the implementation of FedNow and the ongoing management of the service. This process should become clearer when the Federal Reserve provides additional details on how the service will work.

The Council considered a four-part approach to improving the payment system that goes beyond FedNow.

Short Term: Consider making improvements to legacy payment systems, where infrastructure and rules already exist. Leveraging existing rails, such as ACH, electronic check, and ATM networks, to move money faster or to settle batches more often could be an interim step towards faster payments, a step that could be achieved with less expense and more immediate results than having to create a new payment rail. In addition, immediate settlement may not be required at this point.

Medium Term: Launch FedNow as soon as it can deliver a minimally viable product (MVP), that is, a simple real-time settlement service. This medium-term step would benefit banks by making it easier and faster to implement FedNow. The MVP should have scalable architecture so that additional features, such as interoperability with other products and the use of robust remittance data, could be added after the MVP launch.

Long Term: Launch a full-featured FedNow product that is interoperable with other similar products and that would allow complex remittance data to travel with the payments.

Longer Term: Consider future payment options beyond FedNow. This longer-term planning should begin now. Cryptocurrencies and other distributed-ledger-based products are currently in use and even being considered as potential currencies by other central banks. The Federal Reserve and the banking industry should begin preparing for payment systems that might be based on these newer technologies.

In addition, having enhanced fraud monitoring built into FedNow would benefit both the payment system and its users. For example, community banks spend a large amount of resources on compliance with the BSA/AML and OFAC requirements associated with payment transactions. As the operator of FedNow, the Federal Reserve will have end-to-end visibility into each faster payment, which would allow the Federal Reserve to manage risks more effectively. Risk management at this higher level would also alleviate a significant regulatory burden on community banks.

4. Examination Practices: *Have Council members experienced problems with recent examinations? In particular, have examination practices constrained access to credit by creditworthy borrowers? What steps can be taken to address the Council's concerns?*

Council members first raised three specific issues: application of rules and guidelines for acquisition, development, and construction (ADC) and CRE lending, including effects on capital ratios and the follow-on impact to other CAMELS component ratings; the community bank leverage ratio; and examination activities and examiner focus on BSA/AML compliance during the risk assessment process.

Regarding ADC and CRE lending, Council members raised concerns about examiner reactions to growing loan concentration levels that approach or exceed concentration thresholds outlined in interagency guidance; and in some cases, examiner reaction to a bank's existing high volumes of ADC and CRE loan activity. Examiners may not adequately consider the risk characteristics of ADC and CRE loans when evaluating risks in the underlying portfolio. Several Council members indicated that examiners understand the basics, but, in some cases focus on recitation of control protocols, ignoring what the bank is actually doing to monitor and manage its risks. As a result, examination activities are not adequately focused on what measures may be needed, based on a bank's existing risks.

An additional problem mentioned by Council members is inconsistencies among regulatory agencies and field examiners in their reviews and recommended actions, which may differ from bank to bank. While examiners need to be consistent in their risk approach, they should also focus on differences that might make a banking organization unique. What may be appropriate at one bank may not be at another, based on a bank's particular portfolio and risk management protocols, and the health of the market served. Concerns were also expressed about inconsistencies from one examination to the next at the same bank. When nothing about an institution's business model, processes, controls, and monitoring efforts has changed between examinations, changes in examination results are surprising and disrupting.

Council members, in general, concluded that the community bank leverage ratio as it is currently structured will not be very useful. While the ratio may reduce Call Report burden, many banks have capital ratios above the ratio's threshold. Further, examiners have been overly prescriptive on capital issues, and approaches applied at larger institutions are being pushed down to smaller institutions inappropriately. Again, Council members brought up several inconsistencies: supervisory recommendations seem to change from examination to examination, different examiners have different thoughts and approaches, examinations are not appropriately tailored to an institution's size and complexity, and consistent regulatory guidance often is not offered.

Lastly, Council members agreed that BSA/AML examinations often are onerous and not risk based. One Council member indicated that examinations of smaller banks are getting increasingly in-depth, regardless of the effectiveness of the bank's monitoring and control systems. Among other issues, Council members mentioned examiner overreaction to isolated matters and examiner scrutiny of banks' monitoring of digital account openings and compliance with beneficial ownership requirements. Some Council members expressed doubt about the value of examiners' BSA/AML risk assessments.

Beyond citing the specific issues that are listed, Council members noted the number of examinations being conducted with examiners-in-training. These new examiners generally require more help from bankers to conduct examination activities, which puts an increased burden on banks and lengthens on-site examination times.

5. Regulatory Matters and the Future of Banking: *How are recent changes in the regulatory landscape affecting the ability of community depository institutions to continue providing services to their customers? What has been the effect on the industry generally?*

The most prominent concerns that community depository institutions have expressed focus on competitive disadvantages in funding; the need to modernize requirements of the Community Reinvestment Act (CRA) and related regulations; pending application of the current expected credit loss (CECL) accounting standard and its implications for credit availability, transparency, and bank performance; and the conflicts between federal and state cannabis laws.

As the Council previously noted, large banks operating regionally and nationally, as well as nondepository competitors offering nontraditional funds handling, stored-value, and funds-transfer services, have changed local deposit markets. Additionally, the regulatory focus on retail deposits as the primary type of stable funding is outdated. The Federal Reserve should address two critical aspects of its liquidity supervision for community institutions.

First, the Federal Reserve and other regulators should review and update their supervisory perception of which funding types pose enhanced liquidity risk, as well as their perception of the ability of community institutions to effectively manage that risk. For example, recognizing that retail deposits are not the only source of stable funding would allow community institutions to diversify their funding mix without increasing liquidity risk.

Second, the Council continues to welcome innovation in the provision of customer services but has noted that the playing field between banks and nondepository competitors should be level with respect to regulatory requirements for BSA/AML, community reinvestment, data security, and customer protections, including those under Federal Reserve Regulation E. These requirements are all tied directly to deposit-gathering, and community institutions' ability to provide funding is impaired when competitors escape regulatory responsibilities. Moreover, the lack of a level playing field exacerbates the migration of funds toward nonbank businesses that, in many cases, may be thinly capitalized – and that lack the capital and regulatory protections the banking industry provides. Without a level playing field, this migration of funds could eventually threaten the financial system's stability.

Changes to deposit gathering and market areas, whether based on technological innovation or industry consolidation, have also increased the urgent need for CRA modernization. Though the Council acknowledges that a thorough CRA update requires legislation, it applauds and supports efforts by supervisory agencies to take interim steps within their power to improve CRA implementation. Giving an institution credit for its deposits at other institutions that ultimately fund low- and moderate-income customers would be a positive step, as would providing credit for investments in and other support for community organizations and activities that offer broader benefits. Changes to CRA implementation should take full account of community institutions' unique local markets; examiner reliance on "best practices" observed at other institutions will often obscure important local needs and limitations.

The Council has previously expressed the concerns community institutions have about the implementation of the Financial Accounting Standards Board's CECL accounting standard. In addition to the broad concern that CECL will increase the pro-cyclicality of credit markets, community institutions face significant implementation challenges. Because of CECL's dependence on economic forecasting, any shift in a forecast results directly in a potentially significant shift in a bank's reserve levels; resulting in volatility of reserves and earnings. The Federal Reserve could significantly improve CECL implementation by providing guidance on acceptable sources of economic forecasts that banks could use for their CECL analyses. At a minimum, institutions should have access to an approved menu of sources of economic forecast information that the Federal Reserve would accept in its review of banks' CECL analyses. In addition, the Federal Reserve should confirm that an updated CECL analysis based on a revised economic forecast would not require an immediate change in reserves to the full extent of the revision, as long as the reserve variance was within an acceptable range. Allowing the institution to phase in a change in reserves would reduce undesirable pro-cyclical effects. It is critical that these issues be resolved before community institutions face an economic downturn. The Council notes that Federal Reserve guidance on CECL implementation should take into account recent guidance from the American Institute of Certified Public Accountants directed at auditors reviewing CECL analyses. This recent guidance focuses on CECL's heightened reliance on economic forecasting in setting loss allowances.

Finally, institutions in multiple Districts continue to face conflicts between federal and state laws governing cannabis. The risk of indirect involvement with cannabis-related businesses, e.g., providing services to a landlord of a store selling products containing CBD oil, could subject banks to enforcement actions, even if the bank has no direct involvement with controlled substances. In some states, local authorities exert pressure on banks to serve cannabis-related businesses. In addition, the partial federal enforcement guidance on which banks had relied on for some time has been explicitly revoked. The Council appreciates the Federal Reserve's efforts to work with FinCEN and other law enforcement authorities, but the dilemma remains unresolved, and the prospects for federal legislative reform remain unclear.

6. **Additional Matters:** *Have any other matters affecting community depository institutions emerged from meetings of the Reserve Banks' advisory councils that Council members want to present at this time?*
 - a. **Compliance Costs of Small Dollar Lending:** Community lenders have an interest in meeting the need for small dollar loans in their communities. However, compliance costs have made such lending programs uneconomic, particularly with respect to fair lending compliance costs and potential liabilities. To remove this impediment, the Council recommends the Federal Reserve and other regulatory agencies consider establishing a safe harbor for banks that offer small dollar loans. The Council notes that, paradoxically, there would be no regulatory objection or compliance risk if banks made small dollar donations rather than loans. A potential safe harbor might be to classify a pool of small dollar "loans" as a donation, with an expectation of repayment into the pool at a later date when feasible. Other arrangements might be possible to reduce the heavy compliance costs and other risks that currently make small dollar loan programs an uneconomic proposition for banks.

- b. *Examination Costs for Online and Digital Lending Programs:*** Loans made online and in digital formats frequently lack some of the information fields used to identify protected classes. Consequently, these loan programs are frequently flagged for fair lending scrutiny based on this lack of data. The Council recommends reconsideration of examination procedures and examiner training to minimize the supervision costs for banks offering online and digital lending programs that would not require banks to modify their existing formats for these loans.
- c. *Cyber Fraud and Payments:*** The incidence of cyber frauds that induce consumers and businesses to provide payment account information to unintended parties is growing. This type of fraud, which includes hacks of settlement and other third-party service systems, is initiated outside the banking system. Though banking payment systems remain secure in such an attack, criminals nonetheless use the information obtained to direct fraudulent funds transfers. The Council recommends that the Federal Reserve initiate communications with the CFPB, FTC, FCC, and other regulators to discuss ways of combatting cyber frauds that are initiated outside the banking system with the aim of facilitating fraudulent funds transfers.