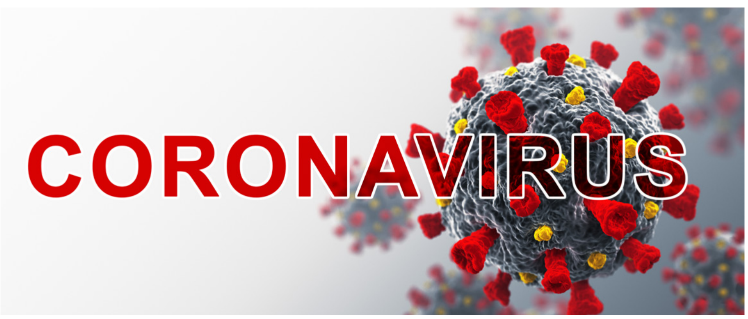
NEW AND ONGOING IMPORTANT REGULATORY UPDATES FOR FINANCIAL INSTITUTIONS DUE TO COVID-19 PANDEMIC



FEMA

FEMA Extends Grace Period for NFIP Flood Policies

On March 28, 2020, FEMA extended the 30-day grace period for receipt by the NFIP of flood insurance renewal premiums and of any additional premium due as required by an underpayment notice. The extension is designed to allow additional time for policyholders to pay insurance premiums by ensuring that their policies are not canceled for nonpayment of premium due to circumstances beyond their control during this unprecedented COVID-19 crisis. More specifically, if a policy has an expiration date between February 13, 2020, and June 15, 2020, the NFIP must receive the appropriate renewal premium within 120 days of the expiration date to avoid a lapse in coverage. This extension applies to all NFIP policies, whether issued by NFIP Direct or a Write Your Own company.

While FEMA is authorized to administer the NFIP, including making changes to the Program commensurate with its mission and authority from Congress to make available federal flood insurance, prudential bank regulators (Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve Board, and National Credit Union Administration, collectively the Agencies) are required to regulate and enforce compliance with the Flood Disaster Protection Act (FDPA), which among other things mandate certain actions when a flood policy lapses in coverage, including the statutory requirement to send a 45-day notice when a regulated lender becomes aware of a flood insurance exposure for designated loan and force-placing flood insurance coverage following the 45-day notice period.

The Agencies have provided interpretive guidance in their Final Flood Rules (page 58) promulgated in 2015 related the consideration of an NFIP flood policy's grace period. This interpretive guidance is as followed:

"The Agencies understand that flood insurance policies under the NFIP will often provide policyholders with a "grace period" of typically 30 days following the expiration date to pay the renewal premiums and fees to restore the policy and ensure continuous coverage. However, the Agencies also understand that any flood insurance coverage provided by the NFIP policy during the grace period would cover only the lender's interest. The borrower's interest would be covered during the grace period only if the borrower pays the renewal premium within the grace period. Because there may be a lack of continuous flood coverage protecting the borrower's interest during this "grace period," the Agencies consider the policy to have lapsed

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as of the expiration date provided by the policy. The Agencies also consider policies that are cancelled for any reason as having lapsed as of the date of cancellation because of the borrower's interest are no longer covered by the policy. Therefore, the Agencies provide that the date on which the flood insurance coverage lapsed is the expiration date provided by the policy or the date the flood policy is cancelled."

The above interpretive guidance, unless revised by the Agencies, triggers force-placed flood insurance requirements, including sending a 45-day notice and force-placing flood insurance following the 45-day notice period as required by the FDPA and implementing regulations. Any overlap of force-placed coverage with a borrower's renewed policy coverage would follow normal force-placed cancellation procedures.

OSC is committed to ensure our regulated financial institution clients are complying with federal banking regulations and statutes. It is our position that unless Agencies revise their interpretive guidance as provided above or any other action that would nullify the interpretive guidance, OSC will continue with current force-place flood insurance procedures as outlined in our contractual obligations, lender procedure guides, and in accordance with the FDPA and its implementing regulations.

Should you have any questions regarding this bulletin, please reach out to your Client Services Manager.

REVIEW FEMA'S MEMORANDUM
REVIEW AGENCIES FINAL RULES 2015

States Issue Moratoriums to Insurance Providers Requiring Extended Grace Periods

Many states have issued certain Orders requiring insurance providers extend grace periods for insurance policies to allow insureds more time to pay premiums and assist during potential financial hardship related to COVID-19 pandemic. These Orders/Moratorium delay the time needed for insureds to pay premiums before insurance policies are canceled/non-renewed for non-payment.

While these announcements are designed to assist borrowers with additional time to pay insurance premiums, insurance coverage during a "grace period" is generally contingent upon premium being paid by the insured in the event of a loss. OSC and our lending clients today do not consider "grace periods" as free continuous coverage in satisfying safety and soundness requirements similar and in line with the regulatory interpretive guidance outlined by the regulatory Agencies noted above. For this reason, OSC will continue risk management services and force-placement procedures for hazard insurance as contracted in our various statements of work, lender procedure guides, and in line with regulatory interpretation. Any overlap of force-placement insurance coverage during this grace periods with borrower coverage once the renewed policy is paid and issued will go through proper force-placement cancellation procedures as outlined in our client lender procedure guides and in compliance with applicable regulations.

Should you have any questions regarding this bulletin, please reach out to your Client Services Manager.

cfpb Consumer Financial Protection Bureau

CFPB COVID-19 Credit Reporting Guidance

The CFPB released a policy statement outlining the responsibility of credit reporting companies and furnishers during the COVID-19 pandemic. In response to the pandemic, many lenders are being flexible when it comes to consumers' making payments. The CFPB's statement underscores that consumers benefit if lenders report accurate information about these arrangements to credit bureaus so that the credit reports of consumers are accurate.

In addition, in response to staffing and resources constraints on lenders and credit bureaus due to the pandemic, the CFPB's statement also provides flexibility for lenders and credit bureaus in the time they take to investigate disputes. The CFPB specifically states that it does not intent to cite in an examination or bring an enforcement action against firms who exceed the deadlines to investigate such disputes as long as they make good faith efforts during the pandemic to do so as quickly as possible.

READ STATEMENT

Temporary Change in Federal Reserve's Supplementary Leverage Ratio Rule

To ease strains in the Treasury market resulting from the coronavirus and increase banking organizations' ability to provide credit to households and businesses, the Federal Reserve Board announced a temporary change to its supplemental leverage ratio rule. The change would exclude U.S. Treasury securities and deposits at Federal Reserve Banks from the calculation of the rule for holding companies and will be in effect until March 31. 2021.

The supplemental leverage ratio generally applies to financial institutions with more than $250 billion in total consolidated assets. It requires them to hold a minimum ratio of 3 percent, measured against their total leverage exposure, with more stringent requirements for the largest and most systemic financial institutions. The change would temporarily decrease tier 1 capital requirements of holding companies by approximately 2 percent in aggregate.

The change will be effective immediately and the public comment period will be open for 45 days.

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Treasury and SBA announce CARES PPP Funds Process

SBA Administrator Jovita Carranza and Treasury Secretary Steven T. Mnuchin announced that the SBA and Treasury Department have initiated a robust mobilization effort of banks and other lending institutions to provide small businesses with the capital they need. The CARES Act establishes a new $349 billion Paycheck Protection Program (PPP). The PPP will provide relief to millions of small businesses so they can sustain their businesses and keep their workers employed. PPP loans can be applied for beginning April 3, and any SBA-approved lender. Lenders that are not already SBA-approved can apply for an expedited approval.

FACT SHEET FOR PPP LENDERS
INFORMATION SHEET FOR BORROWERS
PPP BORROWER APPLICATION FORM

IRS

Employee Retention Credit Program Launched

Treasury and the IRS have launched the Employee Retention Credit, designed to encourage businesses to keep employees on their payroll. The refundable tax credit is 50 percent of up to $10,000 in wages paid by an eligible employer whose business has been financially impacted by COVID-19.

Qualifying employers must fall into one of two categories:

- The employer's business is fully or partially suspended by government order due the COVID-19 during the calendar quarter
- The employer's gross receipts are below 50 percent of the comparable quarter in 2019. Once the employer's gross receipts go above 80 percent of a comparable quarter in 2019 they no longer qualify after the end of that quarter.

These measures are calculated each calendar quarter.

READ ANNOUNCEMENT

READ FAQS

Fannie Mae | Freddie Mac We make home possible®

Fannie and Freddie Expand Loan Accommodations

The Federal Housing Finance Agency has announced several loan processing flexibilities from Fannie Mae and Freddie Mac designed to help lenders process loans, including:

- Allowing desktop appraisals on new construction loans;
- Allowing flexibility on demonstrating construction has been completed (alternative to the Completion Report);
- Allowing flexibility for borrowers to provide documentation (rather than requiring an inspection) to allow renovation disbursements (draws); and
- Expanding the use of power of attorney and remote online notarizations.

These accommodations only apply to loans being originated for sale to Fannie or Freddie.

READ FANNIE MAE ANNOUNCEMENT

READ FREDDIE MAC ANNOUNCEMENT