The CARES Act Ensures Banks and Credit Unions Can Continue Lending to American Consumers and Small Businesses

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The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides regulatory relief to banks and credit unions to keep them lending and serving American consumers and businesses. These changes will provide additional support for consumers with mortgages, student, and auto loans, and to small businesses who need loans to pay their employees, in addition to other credit products.

The temporary relief is extended in four critical ways:

- **Capital Relief for Community Banks.**

  The CARES Act temporarily reduces the Community Banking Leverage Ratio (CBLR) by one percent (from nine to eight percent) and allows the federal banking regulators to grant a "reasonable" grace period if any bank falls below that eight percent threshold. Today, banks are well-capitalized and strong. This change will allow community banks to deploy additional, needed capital to consumers and businesses through this time of crisis. The new standard will expire when the public health emergency ends, or by December 31, 2020, whichever comes first.

- **Relief from Troubled Debt Restructuring (TDR) Disclosures.**

  The CARES Act temporarily suspends "generally accepted accounting principles" (GAAP) requirements for Troubled Debt Restructuring (TDR) classifications on loans. Many banks and credit unions are working with their customers to provide modifications to outstanding loans. These actions can strain bank and credit union balance sheets. This change will assure banks and credit unions that loan modifications resulting from coronavirus-related distress do not trigger a TDR classification or disclosure. This assurance will further incentivize banks and credit unions to exhaust all options to support consumers and businesses. This change will expire 60 days after the public health emergency ends.

- **Relief from Current Expected Credit Losses (CECL) Standard.**

  The CARES Act gives banks and credit unions the option to decide whether to comply with the new ill-advised accounting standard known as CECL. Banks and credit unions have raised concerns that the new requirements will result in reserve increases that tie up capital and correspondingly reduce the supply of available credit. Currently, smaller banks and credit unions are not required to comply with the standard until 2023. The provisions in the CARES Act will give larger banks the option to free up trapped capital and will allow banks and credit unions to extend additional loans to consumers and businesses. This change will expire when the public health emergency ends, or by December 31, 2020, whichever comes first.

- **Debt Guarantee Authority.**

  The CARES Act allows the federal financial regulators to temporarily guarantee noninterest bearing accounts of banks and credit unions without a maximum guarantee limit. This will help reassure depositors that their deposits are safe at any amount, which is especially relevant for companies' payroll operations. This authority will expire on December 31, 2020.

Why It Matters: Congress is doing what it can to remove unnecessary obstacles to bank lending. The temporary relief provided in the CARES Act will allow financial institutions of all sizes to prioritize extending more loans to more American consumers and small businesses during this public health emergency.