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PNC's whole-bank deals since 2000

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Company	Headquarters city	Asset size	Year acquired
National City	Cleveland	$145 billion	2008
RBC Bank USA	Raleigh, N.C.	$27.4 billion	2012
Mercantile Bankshares	Baltimore	$17 billion	2007
Riggs National	Washington, D.C.	$5.9 billion	2005
Sterling Financial	Lancaster, Pa.	$3.3 billion	2008
United National	Bridgewater, N.J.	$3 billion	2004
Yardville National	Hamilton, N.J.	$2.7 billion	2008

Source: The company

dailybriefing

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PAYCHECK PROTECTION PROGRAM

SBA, Treasury release more guidance on PPP loan forgiveness

By John Reosti
May 15, 2020

Better late than never.

More than two weeks after a congressional deadline passed, the Small Business Administration and the Treasury Department late Friday released the application borrowers will use to seek forgiveness for Paycheck Protection Program loans, along with detailed instructions for its completion.

The 11-page application document contains measures that will benefit borrowers, including an option that lets small businesses calculate payroll costs using an "alternative" eight-week covered period that aligns with their regular payroll cycles. It also includes an exemption from the loan forgiveness reduction for borrowers who have made "a good-faith, written offer to rehire workers that was declined."

Borrowers will be able to count any payroll and eligible nonpayroll expenses incurred — but not paid — during the covered period, as long as they are paid by the next regular payroll or billing date. There had been concerns that only expenses that were paid during the covered period would be allowed to count toward forgiveness.

The agencies did not reduce a requirement that 75% of the borrowed funds be used for payroll. The stipulation was not written into in the language of the coronavirus stimulus package that created the $660 billion lending program. The SBA and Treasury added it in regulations implementing the program.

Banking advocates, including the Independent Community Bankers of America, have urged the agencies to adjust the split to allow for a higher percentage of nonpayroll spending.

The application document also includes guidance on how to calculate a reduction in the forgiveness amount for borrowers that spent less on payroll during their covered periods than they did during the first quarter. The reduction would be deducted from the forgiven amount, though there is an exemption if a borrower can show that employees rejected a good faith offer to rejoin their company.

Additionally, borrowers can obtain safe harbor from forgiveness reduction if they can show that by June 30, they restored their workforce to the level in place on Feb. 15.

The agencies' guidance comes two days after they issued a blanket safe harbor for PPP loans totaling less than $2 million.

According to the stimulus package, forgiveness guidance was due by late April. As the deadline slipped, advocates for lenders and borrowers increasingly called for "clear, bright-line guidance."

"Think about this ... a program designed on the premise of forgiving loans still has no process by which to forgive those loans," Tony Wilkinson, president and CEO of the National Association of Government Guaranteed Lenders, said Wednesday during a virtual roundtable event sponsored by the House Small Business Committee.

While lenders and borrowers are likely to be disappointed by the decision to retain the 25% limit on nonpayroll expenses, the initial reaction by many Friday was one of relief that some instructions had been provided.

"A standardized forgiveness application alongside with a step-by-step worksheet for borrowers will help small businesses calculate the amount of forgiveness," the Consumer Bankers Association said in a press release.

The SBA said it would issue more regulations and guidance "soon ... to further assist borrowers as they complete their applications, and to provide lenders with guidance on their responsibilities."

REVENUE AND EXPENSES

Virginia community bank cuts 12% of its staff

By Paul Davis
May 16, 2020

New Peoples Bankshares in Honaker, Va., has fired about 12% of its staff.

The $715 million-asset company said in a press release Friday that it made the cuts after a review of its organizational structure. The cuts represent about 27 positions, based on the company's headcount on Dec. 31.

New Peoples did not disclose the types of positions eliminated, though it said the move will save it about $1.6 million annually. The company expects to incur about $358,000 in one-time expenses tied to severance and assistance with health insurance.

While the "changes are difficult," the

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company said, the cuts were "necessary to achieve the long-term goals of the company and the bank, and to proactively address operational challenges during the current COVID-19 pandemic."

The restructuring "is part of an overall plan to position the bank competitively within the ranks of high-performing community banks in the southeast; improving our customer experience, the financial performance of the institution and ultimately the return to shareholders," Todd Asbury, the company's president and CEO, said in the release.

New Peoples recently reported that its first-quarter earnings fell by 89% from a year earlier, to $46,000. Its loan-loss provision increased to $1 million from $135,000 a year earlier.

M&A

Pad reserves or buy out a rival? BlackRock haul gives PNC options

By Allissa Kline
May 15, 2020

Think the decision by PNC Financial Services Group to sell its stake in BlackRock signals that the bank has big M&A news around the corner? Well, it depends on how long it takes to get around the corner.

Bank analysts and even PNC's own chairman and CEO say there could be an acquisition — and some think there might even be a dream partner under consideration — but that it's too soon to strike a deal given the economic fallout from the coronavirus pandemic.

The Pittsburgh company "might have aspirations for a deal, but it's so early in the cycle and there's so much uncertainty that I think a transaction — if that's what they do with the capital from the sale — will be a ways away," said Scott Siefers, an analyst at Piper Sandler. "They need more clarity on the depth and breadth of this downturn" and to know "how hard it will hit" potential acquisition targets.

PNC this week announced plans to divest its 22.4% stake in the behemoth asset manager BlackRock after a 25-year relationship. The deal, which closed Friday, means the $445.5 billion-asset PNC cashed out about $14.7 billion in BlackRock shares. Of that total, analysts say the company is set to retain about $5 billion after taxes, which is a large chunk of change that could be especially helpful as the economy remains in a free fall and the probability of significant loan losses escalates.

PNC set aside $914 million in the first quarter to deal with loan losses. That was up 384% from a year earlier.

Against that backdrop, industry observers said, the sale is an offensive move that prepares PNC for whatever comes next in a pandemic that has unraveled businesses and upended job security across the country.

"This gives them a lot of optionality in a very uncertain time," said Jennifer Demba, an analyst at SunTrust Robinson Humphrey. "Is this going on for another three months or three years? We don't know."

PNC Chairman and CEO William Demchak, who was not made available for this story, told the Financial Times this week that the bank will be looking for opportunities to buy, though it has no target in mind.

"I think there's going to be opportunities, but it always surprises us in terms of what shows up," Demchak said. "We need to watch and hang around the hoop to see how this plays out."

That is a much different stance on growth than what Demchak expressed last year when he said PNC's focus was on "intelligent organic growth" and that he didn't "see value in acquisitions."

Analysts point to a few potential targets: Citizens Financial Group in Providence, R.I.; Regions Financial in Birmingham, Ala.; and Comerica in Dallas. Stock prices for each company have underperformed in recent years, analysts said, which means PNC could use the BlackRock proceeds to pay cash to scoop one of them up.

All three companies declined to discuss their interest in M&A activity. A Comerica spokeswoman said the $76.3 billion-asset company is "pleased with" its "current footprint" and thinks its "strategy and key strengths will enhance long-term shareholder value."

Dallas is one of the markets PNC is targeting as part of a nationwide middle-market and retail expansion. In July 2019, Demchak told investors that PNC's "solutions centers" in Dallas and Kansas City, Mo., are growing at five times the pace of new branches in the company's legacy markets.

Citizens and Regions both would present geographic overlap. That could be a chance for PNC to cut costs and, in the case of Regions, entrench itself in the Southeast, a market that continues to grow in population and economic vitality.

Of the three, Citizens and its $176.7 billion in assets would create the largest combined institution. It's unknown how regulators would react to a deal of that size during the current crisis.

The decision to sell the BlackRock stake now, after all these years, is a highly strategic move, analysts agreed. And it's straight out of the playbook of Demchak's predecessor, James Rohr, who guided PNC's 2008 purchase of the troubled National City in Cleveland. With a price tag of $5.6 billion, the crisis-era deal more than doubled PNC's asset size and catapulted it into the ranks of the nation's 10 largest banks.

Vining Sparks analyst Marty Mosby said the BlackRock sale couldn't have come at a better time. After a decadelong period in which banks have generally outperformed BlackRock by stock value, the reverse is now true as investors shy away from bank stocks and BlackRock benefits from a relationship with the Federal Reserve in which the asset manager will direct bond-buying programs.

The result: a widening gap between the value of PNC stock and the value of BlackRock stock that means it finally makes sense for PNC to sell. On Friday afternoon, PNC's stock price was roughly flat on the day, while BlackRock's had risen 2%. Year to date, PNC's shares have slid 39%, while BlackRock's have been break-even.

Mosby said he thinks that gap is the "trigger point" that led PNC management to decide to sell now.

"The value, it's huge and that's what makes this so strategic," Mosby said.

PNC hasn't completed a whole-bank acquisition since 2012 when it bought RBC Bank USA from Royal Bank of Canada for nearly $3.5 billion in cash and stock. The transaction included more than 400 branches in North Carolina, South Carolina, Georgia, Florida, Alabama and Virginia.

Now PNC looks ready to do another deal, even if it takes a little bit of time to get there.

“Regardless of what comes down the pipeline, PNC looks like the best positioned [bank] to be able to contend with it, whether that’s capital ratios or loss-absorption capacity,” Siefers said. “Either way, they look very, very strong right now in terms of having the wherewithal to deal with the future.”

E-SIGNATURE

How banks are using remote notarization now that states have signed on

By Miriam Cross
May 14, 2020

Until recently, BMO Harris customers who were seeking a home equity loan or line of credit could apply online and sign most of their documents through an online portal. But they couldn’t escape coming face-to-face with a notary to sign their promissory note and deed, whether that meant visiting their branch’s drive-through or requesting a notary meet them at their home.

Tom Parrish, head of retail lending product management at BMO Harris Bank, even set up a table in his driveway when he needed the services of a notary to wrap up his recent mortgage refinance but wanted to maintain social distancing amid the coronavirus pandemic. Parrish and his wife took turns completing their steps while keeping apart from the notary.

Now customers of the Chicago bank have a third option: getting their documents notarized remotely with a notary on screen.

On May 12, BMO Harris closed its first home equity line of credit remotely from start to finish using Blend Close, the digital closing product created by the consumer lending platform Blend. The $138 billion-asset bank is one financial institution inching toward remote online notarization, or RON, by starting with home equity loans and lines of credit. Unlike electronic notarization, where the notary is signing documents on a computer but sitting face-to-face with the consumer, with RON the entire notarization process is conducted remotely via audiovisual technology, typically a webcam.

According to vendors and consultants, more financial institutions are interested in turning notarization into an all-digital experience. In the short term, this will benefit customers who are hesitant about interacting with a notary in person during the pandemic. In the long term, proponents argue it will be a more efficient method of notarization. But because there are several obstacles, it will be a while before RON is widely accepted, especially for closing mortgages.

“The providers are there, waiting for more and more people to be able to conduct business that way,” said Craig Hughes, managing director of financial services at CC Pace, a consulting firm. “There is not a lack of technical solutions to the problem. This is more of a legislative issue.”

Hurdles to going remote

According to the National Notary Association, 24 states have passed permanent RON laws that let a signer interact with a notary using audiovisual equipment, while 14 of those states have fully implemented their RON procedures, meaning the laws are in effect and notaries are authorized to perform their duties remotely. Many other states, including New York, have issued temporary authorizations allowing notaries to perform RONs or other forms of remote notarization during the pandemic.

But even in states where RON is legal, laws may differ in individual counties.

Moreover, there are other obstacles to remote notarization, such as acceptance. For instance, mortgages are one of the main drivers in expanding the use of RON. But some participants in the mortgage supply chain have yet to embrace the concept.

“Just because lenders can do RON legally in 24 states today doesn’t mean their investors will buy those loans or the warehouse lenders will let those lenders fund the loans,” said Julian Hebron, founder of The Basis Point, a sales and strategy consultancy for consumer finance and fintech companies. “Most title companies might choose not to take the title insurance risk, especially in cases where temporary measures have gone in.”

On March 18, Sens. Kevin Cramer, R-N.D., and Mark Warner, D-Va., introduced the Securing and Enabling Commerce Using Remote and Electronic Notarization Act of 2020, permitting the immediate use of remote online notarization across the U.S.

But absent federal regulations, lenders and title companies may still be wary.

Technical issues also persist.

“There are a whole set of standards that go into making RON technologically sound,” said Hebron. “The notary could turn on Zoom but maybe forget to press record. You could hold up your driver’s license to the webcam and they can validate it, but that technically means they are notarizing it after the fact, which is not something a title company would feel comfortable insuring.”

A more widespread compromise today, and even before the pandemic, is the hybrid closing. In this scenario, non-notary documents are signed electronically, but a notary meets with the borrower in person on the same day to sign the rest on paper.

RON in action

Vendors including Blend, LenderClose, Notarize, Safedocs and SIGNiX all have clients in financial services and facilitate RON in some form.

For example, Blend provides both hybrid and fully remote closings on its new Blend Close platform, which can be used for mortgages, home equity loans and lines of credit and eventually for other consumer banking products.

Borrowers get access to a portal, where they can select the type of closing they want (fully remote or hybrid) and choose their preferred blocks of time for the closing ceremony. Ahead of the closing ceremony, borrowers can preview all documents in their closing package and scan key details marked by the lender.

If borrowers have questions, they can initiate a co-pilot session, which sends a notification to their loan officer that they need help, and the loan officer will work through questions with them through screen sharing. For the RON scenario, the borrower will electronically summon a notary on the day of closing to sign the final set of documents by webcam.

BMO Harris, the first bank to use Blend Close for RON, decided to test the waters with home equity products, rather than mortgages. The institution plans to roll it out with mortgage refinancing in June, but does not yet have a target launch date for mortgages.

Parrish said the bank decided to start with home equity for a few reasons.

"The closing process is directly owned by us, whereas mortgages require coordination with the title company," he said. "The closing documents are significantly less, making it easier and faster to close digitally. And home equity is a portfolio product and does not have the electronic closing requirements that a mortgage does to properly close and sell an eNote," or electronic promissory note.

Besides BMO Harris, Blend has publicly announced that it is in talks with U.S. Bank, a current Blend customer, to use its Blend Close platform as well.

LenderClose, a lending platform provider based in Des Moines, started executing RONs after the governor of Iowa temporarily suspended the requirement for a notary to sign real estate loan documents in person on March 22. Lenders can use their own online notary publics or choose from those in LenderClose's pool.

The fintech closed a mortgage loan with a member of Cedar Rapids-based Collins Community Credit Union, and is working with a number of other credit unions in the state to facilitate HELOCs and refinance loans.

Beyond real estate, banks and credit unions find RON useful for other purposes. Notarize, an online notary service, said that its financial clients use RON for auto financing and lending, private wealth management and personal loans.

SIGNiX, a digital signature company, has about 100 banks and credit unions as clients. About a dozen have signed up to use its RON solution, said Pem Guerry, executive vice president of SIGNiX.

"I believe RON has more security and more anti-fraud capabilities than doing it in person," said Guerry. "You've got technology to analyze whether the driver's license is legitimate. You cannot change a document after it's been notarized, unlike the paper world. People were too nervous about identity authentication. But I think [the pandemic] got a lot of people over their fear because they had no choice."

The video banking platform POPi/o is working on its own RON product, which it hopes to release in the fourth quarter of 2020. The platform already supports a number of requirements that go into RON, including recording and retaining a video session with the signer and any witnesses, and the ability for a consumer to upload documents to be signed or notarized.

Gene Pranger, CEO and founder of POPi/o, said that four or five customers have expressed interest in the platform's RON services, but he expects that number to grow.

"As state notary laws continue to evolve, we foresee that RON will become the most efficient and consumer-preferred method for completing all notary-related functions," said Pranger. "We don't see the easing of pandemic concerns erasing consumer expectations once RON becomes an accepted method to legally verify transactions."

Parrish also says RON is here to stay. Already, 60% of BMO's customers who use Blend are completing their home equity and mortgage applications outside of business hours.

"With the pandemic, folks are more comfortable using video and being able to close this way," he said. "If you can make a convenient option for the customer, why wouldn't you want to take advantage of it?"

GIG ECONOMY

New challenger bank caters to freelancers, gig workers

By Miriam Cross
May 15, 2020

Oxygen, a new digital bank founded by Hussein Ahmed, hopes to be a breath of fresh air for freelancers and entrepreneurs.

It opened to the public on Thursday, and its app is available to download from Apple and Google. It bills itself as a bank for U.S. professionals who draw their income from multiple sources, including contract work and freelance gigs.

The company says its services will be in demand as the pandemic accelerates a shift away from traditional W-2 employment and consumers explore new work opportunities.

"A lot of jobs will not be coming back next year," said Ryan Conway, head of business development at Oxygen. "As people are looking for their next employment opportunities, we think a lot of those people are going to try freelancing, and they're going to need a bank that understands their unique challenges."

It will offer personal and business banking accounts in conjunction with The Bancorp Bank, based in Wilmington, Del.; it will also offer credit and loan products. The service has been in soft launch with The Bancorp Bank since January. Previously, Oxygen was backed by Evolve Bank & Trust.

Customers start by signing up for a personal bank account in Oxygen's mobile app. If they like, Oxygen will then walk them through the process of forming a limited liability company with its partner CorpNet, an incorporation service, and set up a business bank account for them as well.

The goal is to help users keep their personal and business finances separate, as well as protect their personal assets with an LLC. Customers can easily toggle in the app between their two bank accounts, distinguished by different color schemes.

Ahmed would not say how many users Oxygen has but said it has been adding 300 accounts a day recently.

Although Oxygen offers some of the same draws as other challenger banks, such as no monthly fees or overdraft fees, the bank doesn't lead with those features. Instead, it sees itself as catering to higher-earning clients who don't need early access to their paychecks, Ahmed said.

Oxygen also plans to add invoicing tools and tax services that will benefit gig workers and small-business owners.

In February, Oxygen applied for — and was later accepted into — the Visa Fast Track program, which is meant for fintechs that are ready to issue cards and have held at least a Series A funding round or have raised more than $1 million.

CORONAVIRUS

Cheat sheet: 7 measures in House coronavirus bill that matter to banks

By Hannah Lang, Neil Haggerty and Brendan Pedersen
May 15, 2020

WASHINGTON — The $3 trillion coronavirus relief bill that the House passed late Friday is unlikely to become law, but provisions addressing the economic fallout of the pandemic — such as extending the Paycheck Protection Program and expanding Federal Reserve lending facilities — could be on the table in negotiations with the Senate.

The Democrats' ambitious Health and Economic Recovery Omnibus Emergency Solutions Act — or HEROES Act — would also suspend negative credit reporting, freeze consumer debt collection, expand the moratorium on evictions and foreclosures, and provide a safe harbor for banks that service state-legal cannabis businesses. Yet those measures face an uphill battle in the GOP-controlled Senate.

But observers say the House legislation will help advance discussions with Senate Republicans who have been hesitant to provide any additional coronavirus relief. Federal Chairman Jerome Powell pleaded to Congress Tuesday to provide additional fiscal stimulus to the economy.

"This here is the start of negotiations and I think the biggest boost to phase four came when Jerome Powell this week said more fiscal stimulus is needed," said Ed Mills, a policy analyst at Raymond James.

James Lucier, managing director at Capital Alpha Partners, said some components of the House bill have the potential to become law, particularly as it relates to PPP.

"They will probably … extend the life of the Paycheck Protection loan program and reconfigure it," Lucier said. "But other than kind of the core policy goals, I think the details are fungible."

Other provisions of note in the legislation include forbearance for all covered mortgage loans, $100 billion in emergency rental assistance, and additional support for community development financial institutions and minority depository institutions.

The legislation also makes use of the Fed's ability to prop up lending facilities. It would make nonprofits eligible to participate in the Main Street Lending Facility, and keep the Fed's Municipal Liquidity Facility operational through the end of 2021. The House would also set up a Fed facility for debt collectors that lose income due to forbearance provisions.

Senate Majority Leader Mitch McConnell indicated that any additional coronavirus stimulus will be narrowly focused on the pandemic.

"This is not a time for aspirational legislation, this is a time for practical response to the coronavirus pandemic," Senate Majority Leader Mitch McConnell said in a press release. "And so, we're going to insist on doing narrowly targeted legislation."

Debt collection facility

Observers were surprised to see House Democrats include a Fed facility for debt collectors included in the HEROES Act.

The facility would be required to make long-term, low-cost loans to debt collectors to compensate them for documented financial losses due to forbearance of debt payments.

"It is a surprising provision for Democrats who are not normally big fans of debt collectors," said Karen Petrou, managing partner at Federal Financial Analytics. "It is a backstop for debt collectors who are otherwise eligible for PPP loans or for that matter Main Street loans."

But the HEROES Act also includes a moratorium on debt collections during the pandemic and 120 days thereafter. Some analysts say the Fed facility for debt collectors was likely included to appease the debt collection industry and bolster the argument for a debt collection moratorium.

"It's Democrats admitting that if collections have to stop, the collection companies which employ a lot of people in terms of call centers and the like, will go out of business," said Brandon Barford, an analyst at Beacon Policy Advisors. "So it's a way to keep a necessary part of the industry alive to speak, but to be really helpful to consumer. There's no way that Republicans are going to agree to a moratorium on debt collections. There's no way that Democrats would agree to a facility to help debt collectors absent of that moratorium."

Expansion of Fed's Main Street program

Under the legislation, the Fed would be required to make nonprofit organizations eligible for loans through the Main Street Lending Program. The lending facility was created under the previous coronavirus relief law to provide financial assistance to companies with up to 15,000 or $5 billion in annual revenue.

The Fed has said that it is exploring making nonprofits eligible for loans, but has not publicly said how or if it would do so.

The HEROES Act would instruct the Fed to create a low-cost loan option just for nonprofits, as well as a low-cost loan option with no minimum loan size for both nonprofits and small businesses.

Currently, the minimum loan size through the program is $500,000 — a figure that some are concerned could translate into significant debt for borrowers.

The bill also directs the Fed to give nonprofits the flexibility to defer payments on loans.

Additional mortgage relief

The bill would amend the previous stimulus package so that borrowers of any "covered mortgage loan" would be eligible for forbearance for up to a year if they affirm that the coronavirus has affected them financially.

A "covered mortgage loan" is defined in the legislation as any credit transaction that is secured by a mortgage or deed of trust on a one- to four-unit dwelling. Previously, only borrowers of federally backed mortgages were eligible for 12 months of forbearance.

The bill would also automatically put any borrower who became delinquent after March 13 into a 60-day forbearance plan once that borrower misses a mortgage payment for 60 days. Those borrowers would subsequently be able to request additional forbearance for up to 360 days.

Currently, borrowers are required to request forbearance through their mortgage servicer if they are experiencing financial hardship. Some have expressed concern that borrowers might not know about the forbearance option. Others have posited that borrowers may find it hard to contact their servicers, who are flooded with requests.

The HEROES Act would also allow multifamily mortgage borrowers to request forbearance for up to a year; currently those borrowers can skip payments for only 90 days.

The legislation provides a national uniform foreclosure and eviction moratorium for one year. The previous stimulus bill permitted a moratorium on only federally backed mortgages, and the duration of that moratorium was supposed to be 60 days. Some government agencies have already said they would extend it for their borrowers.

With the forbearance provisions already enacted, many have questioned how long mortgage servicers can stay afloat without receiving payments.

The HEROES Act seeks to address that by explicitly making mortgage servicers eligible to receive funding appropriated to the Treasury Department, but does not outright instruct the Fed to create a liquidity facility for mortgage servicers.

While the intent of this provision is unclear, it may serve to clarify that mortgage servicers would be eligible for loans under already-established Fed or Treasury programs.

Congress would also require the Fed to establish a credit facility for residential rental property owners “to temporarily compensate such owners for documented financial losses caused by reductions in rent payments.”

The facility would offer long-term, low-cost loans and would allow residential rental property owners to defer payments on those loans until after six months from the date the HEROES Act is enacted.

The bill would also extend to June 1, 2022, an exemption for Fannie Mae- and Freddie Mac-backed loans from the Consumer Financial Protection Bureau’s “qualified mortgage” underwriting rules. The current exemption, known as the QM patch, is set to expire January 2021.

Suspension of negative credit reporting

Under the previous pandemic aid bill — the Coronavirus Aid, Relief and Economic Security Act — lenders must report borrowers as current to the credit bureaus even if they have entered into forbearance or payment deferral plans.

The new bill would build on those protections by suspending negative reporting related to the coronavirus for the duration of the national emergency plus 120 days. It would also ban all reporting of medical debt related to the coronavirus to credit reporting agencies.

The bill would also require credit bureaus to provide consumers with free credit reports and credit scores for up to a year upon request, and would restrict the use of new credit scoring models that would identify more borrowers as less creditworthy compared to current models.

Changes to PPP

The CARES ACT allows businesses to apply for a Paycheck Protection Program loan until June 30, but the HEROES Act would extend that deadline to Dec. 31, and would make hospitals, nonprofits of all sizes and certain local news media eligible for the program.

The legislation would also give businesses 24 weeks after receiving PPP funds — instead of eight weeks — to spend the money, and would waive the requirement that 75% of the loan be used toward payroll costs in order for the loan to be forgiven. Many businesses with high overhead costs had complained that the payroll threshold was onerous.

Additionally, the bill proposes to set aside a certain percentage of funding for small businesses with fewer than 10 employees and requires that any money returned to the program be used to make loans to businesses with fewer than 10 employees as well.

However, the HEROES Act would not make any additional funding available for Paycheck program, which is noteworthy as the Small Business Administration has reported that more than half of the second round of PPP funding has already been depleted.

New protections for stimulus checks

The HEROES Act introduces new protections for the $1,200 stimulus checks mailed last month, heeding calls from consumer groups and banks that the relief funds should be protected from debt garnishment.

Amending the CARES Act, the legislation proposed by House Democrats would add garnishment to the list of benefit protections for the first stimulus payment as well as potential future payments.

“Any applicable payment shall not be subject to transfer, assignment, execution, levy, attachment, garnishment, or other legal process, or the operation of any bankruptcy or insolvency law, to the same extent as payments described in section 207 of the Social Security Act,” according to the text of the bill. It would require the Treasury Department to encode payments sent to banks in a similar way that other protected federal benefits are, such as Social Security payments.

But the provision is not retroactive, analysts point out, and it remains unclear just how helpful the measure would be with more than 100 million payments already delivered by the IRS.

For people who have already had their stimulus payments garnished, “it doesn’t do much,” said Kiran Sidhu, policy counsel for the Center for Responsible Lending.

Aid for community development and minority-owned institutions

The HEROES Act introduces several measures intended to shore up financial institutions with a focus on community development and minority-owned lenders.

For starters, the bill would provide a sizable bump in funding to the Community Development Financial Institutions Fund, a Treasury-managed investment vehicle that gives loans and grants to organizations that specialize in making targeted, smaller loans in communities across the country.

The $2 billion appropriated by the HEROES Act toward the CDFI Fund is significant. In 2018, the fund reported distributing a total of just over $11 billion in lending and investments.

Of that $2 billion, the HEROES Act would require that at least $800 million be set aside to be used by minority-owned lending institutions, which would include depository institutions as well as CDFI loan funds.

The proposed measure comes after Democrats already requested that the SBA and Treasury make Paycheck Protection funds available for community development financial institutions.

“The SBA and Treasury must also use their administrative authority to proactively engage with MDIs and CDFIs, including Native and minority-led CDFIs, SBA microlenders and CDCs that wish to participate as PPP lenders, Democratic lawmakers including Rep. Nydia

Velazquez of New York said in an April 27 letter. “As part of this effort, SBA and Treasury must remove barriers to participation for these critical lenders, particularly for non-bank CDFIs.”

Separate from the Treasury’s CDFI Fund, the HEROES Act contains a second attempt to galvanize minority-owned community finance outfits by creating Minority Depository Institutions Advisory Committee, which would work with bank regulators to provide support for such institutions through “partnerships, technical assistance, and Federal deposits,” according to the bill’s summary.

The bill also mints a new kind of bank designation: “impact banks,” defined as any bank with assets of less than $10 billion if “the total dollar value of the loans extended by such depository institution to low-income borrowers is greater than or equal to 50 percent of the assets of such bank,” according to the bill’s text. Such banks would be certified by federal bank regulators after an application process.

FEDERAL RESERVE

Fed warns corporate debt risk could soar as pandemic stretches on

By Hannah Lang
May 15, 2020

WASHINGTON — The financial strain on households and businesses from the coronavirus pandemic “will likely create fragilities that last for some time,” heightening risk in the corporate debt market, the Federal Reserve said.

In its semiannual Financial Stability Report published Friday, the Fed said companies may face difficulties repaying debt given lower earnings, “which could trigger a sizable increase in firm defaults” and bank losses on certain business loans.

“Policy interventions may help businesses withstand a period of weak earnings by issuing new debt and extending existing credit, but many of these businesses will emerge with even higher amounts of leverage, suggesting that vulnerabilities stemming from the business sector, including nonpublic companies and small businesses, are likely to remain elevated for some time,” the Fed’s report said.

Although the economy before the pandemic was generally in a much better spot than in the lead-up to the 2008 financial crisis, volatility in the short-term money markets amplified the shock of the coronavirus to the financial system. The Fed was prompted early in the coronavirus crisis to take a number of actions, including slashing interest rates to zero and establishing several emergency lending facilities.

“Forceful early interventions have been effective in resolving liquidity stresses, but we will be monitoring closely for solvency stresses among highly leveraged business borrowers, which could increase the longer the COVID pandemic persists,” Fed Gov. Lael Brainard said in a statement.

The historically high levels of corporate debt that policymakers have been warning about for more than a year showed some troubling signs as defaults on leveraged loans ticked up in February and March at the onset of the pandemic, the Fed said. Those defaults are likely to increase, the report noted.

“Such developments would weaken the balance sheets of lenders, including [collateralized loan obligations] that hold leveraged loans, and amplify the economic effects of COVID-19,” the Fed said.

The origination of leveraged loans, however, slowed down considerably starting in February, and the issuance of those loans essentially came to a halt in March.

Consumer debt is also an area of concern for the financial system. The Fed reported that consumer credit card balances were almost $1 trillion at the end of 2019, and subprime or close-to-subprime borrowers accounted for about half of that amount.

Given the rapid spike in the unemployment rate — to 14.7% in April — the delinquency rates for those borrowers could overtake the highs of 2009 and 2010, according to the report.

The Fed also warned that although household debt was at a moderate level relative to income before the coronavirus, the inability of households to repay debt could result in material losses to lenders.

Still, banks thus far have been able to meet demand and perform relatively well given the magnitude of the coronavirus crisis, while at the same time building loan-loss reserves to absorb increased defaults. And many requests to draw on lines of credit were offset by a growth in bank deposits, which surged in February and March.

But the potential for a spike in credit losses as well as flat interest rates “have weakened the outlook for bank profitability, a key factor in banks’ ability to replenish capital,” the Fed said.

Although some of the Fed’s interventions have helped to walk back sharp declines in asset prices seen earlier in the year, asset prices could experience more significant declines if the coronavirus were to worsen or if the effects to the economy are further amplified.

While commercial and residential real estate prices have remained largely unchanged, those will also likely experience some stresses, the Fed said.

The Fed also warned about the possible strains on mortgage servicers given that borrowers with federally backed mortgages can request up to 12 months of forbearance.

Mortgage servicers are legally obligated to advance payments to investors, even if they do not receive mortgage payments from borrowers. This would particularly hurt nonbank mortgage services that don’t have the same liquidity resources as banks.

“In the short term, these strains could lead to curtailment of mortgage credit, and in the longer term, large-scale forbearance could cause some nonbank mortgage servicers to fail,” the Fed said.

Yet the central bank also highlighted the roots of this crisis outside the financial system, and said that the risks to financial stability will depend on how well the government can contain the spread of the virus.

If the coronavirus were to persist in the U.S. or if there were a second wave, it could put even more pressure on the financial system and could bring risks to the economy to the surface, according to the Fed’s report.

“A number of the vulnerabilities identified in this report could grow, making them more likely to further amplify negative shocks to the economy,” the Fed said.

ELECTION 2020

Biden's Wall Street pals think they have his ear despite snubs

By Bloomberg News
May 18, 2020

Wall Street veteran Charles Myers got a surprise Wednesday in his Park Avenue home office. The longtime Democratic donor and former vice chairman at investment bank Evercore was sitting near photos of Barack Obama, Bill Clinton and Margaret Thatcher when he read the names on Joe Biden's new economic policy task force.

None of his financial industry friends were there. Myers saw one congresswoman, two labor leaders and five economists from academia or think tanks.

"I literally don't know any of them — I've never heard of them," Myers said after Biden and vanquished rival Sen. Bernie Sanders announced the members of the "unity" policy committees, part of a broader Biden effort to keep progressives engaged with his campaign.

Yet the banker isn't bothered. Wall Street's Democratic insiders, who have been cutting checks and winning access for decades, say they have plenty of sway in Biden's orbit, despite his very public wooing of the progressive left. Some finance veterans have even begun to think about the spots they might land in Washington if Biden wins.

Myers, a bundler for the Biden Victory Fund and chairman of Signum Global Advisors, said keeping bankers off the task force was "a very tactical and very smart move."

"But it doesn't mean that, in the end, the selection of Cabinet members will be determined by these people," Myers said.

Close Biden adviser Ted Kaufman, a former U.S. senator, said personnel decisions would be guided by the principles Biden has campaigned on. Biden has argued that he's better suited than President Donald Trump to rebuild the economy in 2021, citing his oversight of the stimulus money released by the Obama administration when he was vice president.

"We're going to have people involved in the administration who, as he's said time and time again, make sure that we deliver an economic recovery that redounds to the benefit of the middle class — not like the coronavirus stimulus and not like the Trump tax bill, where the majority of the benefits went to the top 1%," he said.

Trump, who picked Goldman Sachs alumni to be his Treasury secretary and first economic adviser, has cut taxes for the rich and the companies they run, and is now consulting billionaires from the hedge fund and the private equity industries on reopening the economy as the coronavirus pandemic eases.

Lots of ideas

If Biden wins in November, one top Wall Street executive is hoping to get a position in the Defense Department, and a veteran of a global bank wouldn't be interested in anything but the top Treasury spot, they said, asking not to be named.

Myers said he doesn't want an administration job, but has ideas for Biden on possible appointees. He'd recommend Tom Nides, a vice chairman of Morgan Stanley; Evercore founder Roger Altman; BlackRock boss Larry Fink' Blackstone's Tony James; and Blair Effron, co-founder of Centerview Partners, where Goldman executive-turned-Treasury Secretary Robert Rubin is a counselor, among others.

They're all members of the centrist wing of the Democratic Party, a group of executives who tend to celebrate Wall Street rather than try to undermine it, and who were often annoyed by Sanders's and Sen. Elizabeth Warren's presidential bids.

Throwing fundraisers

Several have been throwing or attending fundraisers for Biden for months. Rubin was spotted at a fundraiser at the Carlyle Hotel last year, where the candidate said he "may not want to demonize anybody who has made money." Top Goldman executive Stephen Scherr and former Goldman partner Eric Mindich were there, too.

Sarah Bianchi, who worked for Mindich's hedge fund before she became Biden's head of economic and domestic policy in the Obama administration, is now head of public policy for Evercore. She also ran the Biden Institute's policy advisory board, a group that included Mindich, Nides, former Treasury Secretary Larry Summers, and JPMorgan Chase executive Peter Scher. Summers is a commentator for Bloomberg Television and its "Wall Street Week" program.

Jeff Zients, a former Obama economic adviser who now runs the Cranemere Group, a holding company that buys businesses, threw a Washington fundraiser for Biden. It was co-hosted by Michael Froman, Obama's U.S. Trade Representative and now an executive for Mastercard Inc.

Fink, the billionaire who runs the world's largest asset manager, has been seen on Wall Street for years as a potential Treasury secretary. BlackRock's head of sustainable investing, Brian Deese, and the chairman of its investment institute, Tom Donilon, both had top roles in Obama's White House. Obama's two Treasury chiefs, Jacob Lew and Timothy Geithner, are now private equity executives.

'Not bad folks'

"Wall Street are not bad folks, but they didn't build this country," Biden said last week during a fundraiser hosted by Comcast executive David L. Cohen. "The middle class built the country, ordinary women and men capable of doing extraordinary things, that's who I believe in, that's why I'm in this race."

Not everyone thinks Biden will surround himself with bankers and billionaires, and Biden himself has been careful to balance his need for their advice and money and his quest to attract middle-class and progressive voters.

"The Biden camp includes people who believe that government has too often been captured by the industries that it ought to regulate — it also includes people who have helped industries co-opt government," said Jeff Hauser, who runs the Revolving Door Project at the Center for Economic and Policy Research, a progressive think tank in Washington.

"I am optimistic that Biden understands that his legacy involves shifting to the left, and becoming more populist on a variety of economic issues. He has had an instinct for understanding the movement of the Democratic Party for two generations," Hauser said.

Robert Wolf, a former UBS Group AG executive, said he believes Biden can win over a majority of Wall Street and business leaders, who could then help him in the years to come. "The nation is his Rolodex," said Wolf, who now runs the firm 32 Advisors. "And he'll have a group of experts to choose from to lead the recovery."

Campaign spokesman Andrew Bates said Biden's aim is to build a stronger middle class "with the most progressive, far-reaching, bold and transformational agenda of any president since the Great Society. That mission will dictate all of his decisions when it comes to building a Biden administration."

COMMUNITY BANKING

Meta Financial to handle refund-advance loans for H&R Block

By Paul Davis
May 15, 2020

Meta Financial in Sioux Falls, S.D., is back in business with H&R Block.

The $5.8 billion-asset Meta disclosed in a regulatory filing Friday that it has a letter of intent with H&R Block unit Emerald Financial Services to provide financial products to the tax preparation firm's clients.

A completed agreement would allow Meta to underwrite, originate and fund refund advance loans for H&R Block during next year's tax season. Meta said the deal could generate $15 million to $20 million in net operating income in 2021.

Meta had a relationship with H&R Block as a recently as 2017, though the tax preparation company ended the partnership the next year.

Meta's announcement came a day after Axos Financial in San Diego disclosed that H&R Block planned to end an Emerald partnership they had formed six years earlier. The two sides were unable to reach a deal on fees lost after Axos became subject to interchange caps tied to the Durbin amendment.

The $12.2 billion-asset Axos said it would lose about $21 million in in administrative fees in 2021 if the Emerald relationship ended. It also warned that it could lose another $10 million in net operating income next year if H&R selected another bank to handle its Refund Advance product.

BANKTHINK

Coronavirus scams are proliferating. Smart tech can stop them.

By Gary M. Shiffman
May 15, 2020

The coronavirus rescue package has already resulted in a surge of false claims, fraud and other scams.

Many of the systems that government agencies and financial institutions have in place are not able to effectively vet or verify the identity and claims of applicants. If less than 1% of money launderers were caught before this crisis, imagine how pervasive financial crime will be after it.

From a technological standpoint, the Small Business Administration and the loan departments of banks are nowhere near ready to process the new coronavirus aid fraud. Like many current banking systems, most government agencies produce inefficient results because they rely on credit checks and bypass even simple Google searches to vet individuals and businesses.

Google might be a great way to find the best laptop to buy, but it's not the best tool to use when screening for fraud. There's a difference between searching the open and deep web based upon threat versus searching based on popularity and advertising revenue (as Google or Bing do).

The risk of fraud almost always increases during times of large-scale emergency spending. By one government estimate, 16% of the $6.3 billion in relief distributed to victims of Hurricane Katrina and Hurrican Rita was spent improperly.

The difference between 2005 and today, however, is that for the first time in history, artificial intelligence and machine learning (ML) technology exists to effectively screen upfront for fraud, corruption and abuse. But such technology needs to get to the hands of people on the front lines countering financial crime.

Big data has already helped folks shop more efficiently, connect on social media and find new shows aligned to their preferences. It's time to apply the same capabilities to screening for fraud.

Because of the scale of the relief packages and the amount of crime occurring as a result, the deterrence effect of investigation and punishment is nearly nonexistent right now. To limit the occurrence of fraud and crime, criminals must be caught immediately, not years after the fact.

Screening needs to occur during the process of approving people and companies for COVID-19 relief dollars, and it needs to be done quickly and efficiently because people urgently need fudding. There needs to be proactive prevention, rather than reactive response.

It is much harder for criminals to evade fraud prevention systems driven by AI and ML technologies because the systems are built to continuously learn, readjust to new data and improve their efficacy.

New AI and ML technology can screen a population's entire online and public presence in a matter of seconds, identifying false narratives that signal a need for further investigation. For example, if someone claims to run a 20-person company but has a web presence indicating a one-person company, that's a red flag.

AI and ML technology can also identify a person with a history of past lawsuits or tort claims, most of which are available in local papers or on public websites.

The best AI and ML technologies are built on good computer science, good data and a strong understanding of human behavior. This is because AI and ML work through pattern recognition. Scammers and financial criminals are human, and because they are human, they also behave predictably that can be identified through technologies like AI and ML.

If banks want to outthink and outperform scammers, hackers, money launderers and other criminals, they need to think about the science behind the systems used — both the computer science and the behavioral science. Doing so will help save the American people and their government millions of dollars.

Gary M. Shiffman, Ph.D., is founder and CEO of Giant Oak, the creator of Giant Oak Search Technology (GOST) and the author of "The Economics of Violence: How Behavioral Science Can Transform our View of Crime, Insurgency, and Terrorism" (Cambridge University Press, March 2020). He teaches economic science and national security at Georgetown University. His latest white paper is "Solutions for Crisis-Related Fraud."

COMMUNITY BANKING

Heartland taps industry veteran to lead Wisconsin bank

By John Reosti
May 14, 2020

Heartland Financial USA in Dubuque, Iowa, has hired a veteran banker to run its Wisconsin operations.

The $13.3 billion-asset multibank holding company said in a press release Wednesday that Brent Giles, who served the last 16 years as chairman, president and CEO of Liberty Bancorp in Kansas City, Mo., will become president and CEO of Wisconsin Bank & Trust in Madison on May 22.

Liberty was sold to the $15 billion-asset Central Bancompany in August for a $103.7 million. Before joining Liberty, Giles was president of Lawson Bank in Missouri.

Under Giles' leadership, Liberty grew from assets of $189 million in September 2003 to about $540 million at the time of its sale, and it bought Lawson Bank in 2018.

"We are fortunate to have Brent Giles take the helm at Wisconsin Bank & Trust," Steve Ward, Heartland's Midwest regional president, said in the release.

Giles got his start in banking at the Federal Deposit Insurance Corp., where he was a bank examiner from 1989 to 1998.

Giles also serves as a director at the $223 million-asset Keystone Bank in Austin, Texas. Giles and Jeff Wilkinson, Keystone's chairman and CEO, were high school classmates in Kansas City.

"Brent was part of the founding group" at Keystone, Wilkinson said in an interview Thursday. "He's an outstanding banker. Wisconsin Bank & Trust is lucky to be getting him." ❑