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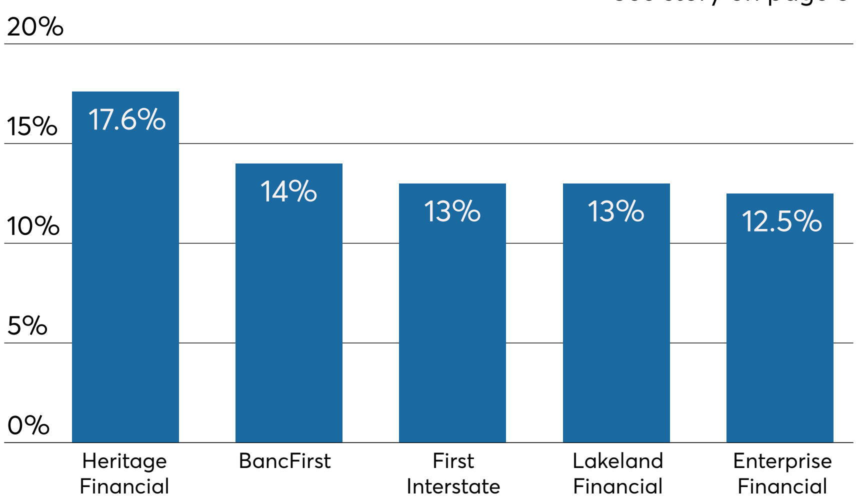
THURSDAY MAY 7, 2020 VOL. 185 No. 88 AMERICANBANKER.COM Follow us on Twitter @AmerBanker

PPP buy-in

These banks have a large concentration of loans on their books tied to the Paycheck Protection Program

● PPP as % of total 1Q loans

See story on page 3



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dailybriefing

1 Nominee to oversee pandemic rescue funds grilled over Trump ties

As special IG for the Treasury's allocation of $500 billion in aid, Brian Miller could look into funding for Fed credit facilities. But Democrats on the Senate Banking Committee questioned his independence. **Page 2**

2 Latest worry for PPP lenders: Liability for loans they didn't make

Bankers are bracing for accusations of discrimination in the way Paycheck Protection Program loans were allocated. (See chart above.) **Page 3**

3 Big banks pull ahead in small-business aid after stumbles

The largest U.S. banks stepped up lending to dominate the government's small-business rescue program after playing an undersized role in its early days. **Page 4**

4 Cheat sheet: 8 ways Fed is using emergency powers to counter pandemic

The central bank's programs announced since mid-April in response to the coronavirus outbreak match if not exceed the actions it took during the 2007-9 financial crisis. **Page 4**

5 Regulators modify liquidity coverage ratio requirements

The agencies issued a rule to help banks to participate in two of the Fed's lending facilities and "support the flow of credit to households and businesses." **Page 7**

6 'This is shameful and I will advise the media': Tales from the Twitterverse

Since the coronavirus pandemic began, banks have seen customer posts more than double across their social media platforms. Here's how they are responding to the demand — and the anger. **Page 7**

7 State regulators question timing, legality of OCC licensing proposal

The Conference of State Bank Supervisors says parts of the plan are an overreach, while the agency should think twice about developing the proposal during the coronavirus pandemic. **Page 8**

8 U.S. household debt hit yet another record in 1Q, despite pandemic

A surge in demand for home loans drove the increase, but the second quarter could see a slowdown in borrowing and more delinquencies as consumers contend with the economic fallout of the coronavirus pandemic. **Page 9**

9 How bankers think about Gen Z

These tech-obsessed consumers still crave human interaction. Banks' challenge: Designing products and services that meet their needs. **Page 10**

10 Dear bankers: Don't return to your old, shareholder-first ways

Banks tend to pull back in times of crisis by tightening credit and focusing on collections efforts. But consumers, not returns, must be the focus during the coronavirus pandemic, David Silberman writes. **Page 11**

CORONAVIRUS

Nominee to oversee pandemic rescue funds grilled over Trump ties

By Hannah Lang
May 05, 2020

WASHINGTON — Senate Banking Committee members on Tuesday grilled a White House lawyer nominated to help lead the oversight of the Trump administration's use of congressionally appropriated money to respond to the coronavirus pandemic

If confirmed, Brian Miller would assume the role of special inspector general for pandemic response, an office Congress created when it passed the coronavirus rescue package in March. The bill allocated about $500 billion to the Treasury Department to distribute to households and businesses affected by the coronavirus.

The new watchdog role — one of three oversight positions creating to monitor spending of the $2 trillion stimulus package — could extend to overseeing funds Treasury provides for the Federal Reserve's emergency credit facilities, such as the Main Street Lending Program and the Paycheck Protection Program Liquidity Facility.

The Trump administration has been criticized for challenging scrutiny of its allocation of the stimulus funds, and recently dismissed acting Defense Department Inspector General Glenn Fine, who was expected to have a role in overseeing implemention of the rescue package.

At the hearing in which many lawmakers appeared via video chat, Miller refused to answer most questions about his role as White House counsel, which included work dealing with the impeachment proceedings against President Trump. The hearing also included questioning of the administration's nominee to lead the Federal Housing Administration.

While Republicans on the committee appeared to support Miller's nomination, Democrats were more skeptical, questioning whether Miller could be an impartial figure given his ties in the Trump administration.

"President Trump has shown outright hostility toward anyone who tries to hold him accountable to the American people he serves, including inspectors general," said Sen. Sherrod Brown, D-Ohio, the ranking member of the committee. "All of these professionals did their jobs and exposed misconduct in the Administration."

But Miller refused to answer any questions about Fine's dismissal, often appearing to read from a prepared statement.

"My ability to respond to questions about what goes on in the White House Counsel's Office or the White House may be limited by my ethical obligations — ethical obligations that bind all lawyers," Miller said more than once in response to questions.

Sen. Elizabeth Warren, D-Mass., pushed Miller to answer questions about what he would consider to be waste, fraud or abuse of government funds if he were confirmed as special inspector general.

"How about when companies are lobbying Congress, or the White House, either one — you said you want to look at both — how about that?" she said. "Is that a potential circumstance you'd want to investigate?"

Initially, Miller said he felt uncomfortable answering hypothetical questions, but eventually pledged that he would "investigate any area that I think is an abuse of these monies."

"I will investigate any situation that I consider an abuse of taxpayer funds," he said, adding that he considered a large company receiving bailout funds and then laying off workers to be an example of an issue that he would likely investigate.

Several Republicans pointed to Miller's role as the inspector general of the General Services Administration during the Bush administration in 2005 as proof of his ability to be independent.

In that role, Miller investigated a Bush-appointed GSA administrator who, his office concluded, had awarded a government contract to a friend in violation of federal procurement law, and said he experienced retaliation for doing so.

"At one point I had to investigate the administrator, herself a Bush appointee, as I was," said Miller. "There were all sorts of ways to try and hinder the independence and effectiveness of the inspector general, but I worked through it all. I insisted on being independent, and never compromising the facts or the truth, and I made those reports public."

Senate Banking Committee Chairman Mike Crapo, R-Idaho, urged the committee to swiftly vote to confirm Miller, citing his experience as an inspector general in both Republican and Democratic administrations.

"He has been outspoken on the need for inspectors general to have independence and access to information, and I am confident that he will carry out the responsibilities and mission of this position diligently, independently and objectively," Crapo said. Asked later about the timing for a committee vote, Crapo said, "It is my expectation that we will do that soon."

The committee also met to review the

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Established 1836
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nomination of Dana Wade to be commissioner of the FHA. She told lawmakers that if confirmed, her priorities would be to protect current FHA homeowners, improve the agency's IT infrastructure and protect taxpayers from losses at the FHA due to COVID-19.

"I believe that FHA has a duty to support the nation's housing markets and homeowners facing economic hardship," Wade said in her opening remarks. "While the virus will pass and the economy will eventually regain its previous strength, the road to recovery will require our sustained effort."

Wade served as the acting FHA commissioner from July 2017 until June 2018. She then worked as the general deputy assistant secretary in HUD's Office of Housing before joining the Office of Management and Budget, where she worked as a program associate director for general government.

In response to a question from Sen. Bob Menendez, D-N.J., Wade committed to ensuring that the FHA would play a countercyclical role in the mortgage market to help borrowers who may have been turned away by lenders that have tightened standards in response to the pandemic.

"Providing and performing countercyclical support is integral to FHA's mission," Wade said. "It is incredibly important that FHA stay open for business and do everything that it can to promote market stability during this time."

COMMUNITY BANKS

Latest worry for PPP lenders: Liability for loans they didn't make

By John Reosti
May 05, 2020

Spurred by complaints that the Paycheck Protection Program's initial phase failed to channel enough loans to small businesses, lenders have hustled to get money into the hands of more borrowers in the effort's second iteration.

Lenders are on pace to make more than 4 million loans during PPP's second installment, which would more than double the numbers from the program's initial run, based on May 1 data from the Small Business Administration. The average loan size has fallen by 60%, to $80,000.

While those results are dramatic, there are concerns that lenders will need to brace for fair-lending litigation and regulatory scrutiny for the loans they do not make. And there is potential reputational risk as small businesses that received funds navigate the murky process for loan forgiveness.

Banking lawyers are already having conversations with nervous clients about the looming issue.

"There's a significant possibility banks could face private lawsuits or regulatory action," said Scott Pearson, a regulatory compliance attorney at Manatt in Los Angeles.

Regulators have already dropped hints that they plan to examine PPP lending closely.

The Office of the Comptroller of the Currency issued a bulletin on April 27 urging banks to "prudently document their implementation and lending decisions." The agency also advised lenders to "identify and track the PPP loans made to small-business borrowers that have annual revenues of $1 million or less and are located in low- to moderate-income areas."

The Consumer Financial Protection Bureau published a blog post the same day, co-written by Fair Lending Director Patrice Alexander Ficklin, instructing small-business owners "who believe they were discriminated against based on race, sex, or other protected category" on how to file complaints online.

For many if not most lenders, experiencing any adverse impacts from PPP participation would be a hard pill to swallow. Congress devised the program, part of the $2.2 trillion coronavirus stimulus package, to funnel money to small businesses and their employees as quickly as possible.

Congress authorized $349 billion for the program. Lenders jumped in with both feet, exhausting the allocation in 13 days. Despite persistent problems accessing the SBA's platform, nearly 5,000 lenders — often working around the clock — secured approval for nearly 1.7 million loans during the initial run that ended on April 16.

Banks acted "as intended by the legislation and demanded by" the Treasury Department, Pearson said. "In the early stages of the program, [lenders] said they did not have enough guidance. They were told to stop complaining and make these loans. Banks did that."

The SBA and Treasury pushed lenders to make PPP loans as rapidly as possible, industry observers said.

"The focus was speed, speed, speed — deploy the funds," said Brad Rustin, a lawyer at Nelson Mullins in Greenville, S.C.

Even so, small-business owners complained about decisions by many lenders to prioritize existing clients. Bankers acknowledged such a focus, but they noted it provided them some protection from running afoul of Bank Secrecy Act and anti-money-laundering laws.

"With little guidance whatsoever, banks jumped into the fray to try and help customers as best as they could, not knowing the terms and rules even up to the first day applications opened," said Eric Corrigan, a managing director in the financial institutions group at Commerce Street Capital in Dallas.

The SBA and some lenders are already dealing with litigation tied to the program.

Payday Loan LLC, which engages in lending and check cashing in 22 stores in California, sued the SBA April 25 after its request for a $644,000 loan was denied. The application was rejected on the grounds that PPP funds could not be made to companies that profit mostly from making loans.

Some small-business owners have filed lawsuits targeting big banks, claiming that they favored select, larger clients rather than processing applications on a first-come, first-served basis. Wells Fargo, Bank of America, JPMorgan Chase and U.S. Bancorp are all defending class-action lawsuits.

The $96 billion-asset BBVA USA in Birmingham, Ala., and the $34 billion-asset Cullen/Frost Bankers in San Antonio are also dealing with legal challenges.

It is unclear how much of a threat the lawsuits pose.

A federal judge in Maryland threw out a lawsuit in mid-April, ruling that borrowers lacked a private right of action to sue under the stimulus law that created the PPP. But the decision might not shield banks from other types of litigation related to the program — including discrimination complaints.

"There are some potentially nasty disparate-impact issues out there," Rustin said.

Participation in the program has put lenders in unchartered territory.

"Helping SBA and Treasury roll out a massive stimulus program is not something banks ever did before," said Craig Nazzaro, another Nelson Mullins lawyer. "Most didn't have the bandwidth or capacity to meet program demands and stay heavily focused on their fair- lending controls to safeguard against future allegations of unequal access to credit for women and minority borrowers."

Amid massive economic fallout from the coronavirus pandemic, banks assumed the PPP's primary goal was to quickly put money into the hands of small business employees whose jobs were at risk. The ceiling for loans was set at $10 million and companies with up to 500 employees were eligible. Congress stipulated that funds spent on payroll and benefits, along with occupancy costs and utilities, would be forgiven.

But several high-profile incidents where publicly traded companies, elite private schools and even the Los Angeles Lakers obtained loans, than agreed to return the funds, have galvanized lawmakers and government officials to press for more lending to smaller borrowers. That has contributed to the much smaller average loan size in PPP's second phase.

The SBA and Treasury recently announced plans to review PPP loans exceeding $2 million in size when lenders submit borrowers' applications for forgiveness. And the agencies have yet to release overdue guidance on the specific requirements for loan forgiveness.

The result is persisten confusion for bankers and borrowers, said Brad Bolton, president and CEO at the $153 million-asset Community Spirit Bank in Red Bay, Ala.

Larger borrowers with a legitimate need for funding "are scared to death," said Bolton, who is also vice chairman of the Independent Community Bankers of America. "They want to know if they should access their loans. … They're having to pay a penance for things they didn't do."

"Regulators have a habit of changing the rules along the way," Corrigan said. "Now they're reviewing loans over $2 million. They could also change the terms of forgiveness. … Any bank holding this paper, even for a moment, is subjecting themselves to unknown risks."

For lenders, the best way to protect against legal and regulatory scrutiny lies in documenting every step of the decision-making process, Nazzaro said. The sooner they start, the better, he added.

"You don't want to be reconstructing all this a year from now," Nazzaro said. "Document the discussions you had, what was presented to the board. If you did an outsize number of Paycheck Protection loans relative to your portfolio, document why."

With PPP's phase two still in full swing, and with a possible third installment being discussed, lenders should expand their outreach to more underserved communities and groups "to make sure they get the opportunity to apply," Pearson said.

SMALL BUSINESS LENDING

Big banks pull ahead in small-business aid after stumbles

By Bloomberg News
May 05, 2020

The largest U.S. banks stepped up lending to dominate the government's small-business rescue program after playing an undersized role in its early days.

Banks with assets of $10 billion or more processed 68% of Paycheck Protection Program loans last week, data released on Sunday show, compared with about 40% during the program's first round from April 3 to April 16. That translates to about $24 billion of PPP loans a day from the largest banks, more than double the daily pace set by that group in the first phase.

The big banks took PPP lending share mostly from medium-sized ones with between $1 billion and $10 billion of assets, the data show. Those firms saw their share drop by more than half to about 16%. The smallest banks' share also declined, to 15% from about 20%. Figures from the first round were disclosed in an SBA statement April 17.

Overall, big banks now account for about half the total lending.

Bank of America Corp. on Monday identified itself as the top lender in the second round of funding, which means it got loan approvals for $21.3 billion in the week ending Friday. The bank had won approval for only about $4 billion of loans during the first round of the program.

FEDERAL RESERVE

Cheat sheet: 8 ways Fed is using emergency powers to counter pandemic

By Hannah Lang
May 04, 2020

WASHINGTON — The Federal Reserve has taken unprecedented actions to stabilize U.S. financial markets and keep credit flowing as the coronavirus pandemic halted the nation's longest economic expansion.

The Fed acted quickly March 3 by announcing its first emergency interest rate cut since the 2007-2009 financial crisis. The central bank further slashed the federal funds rate to zero on March 15 while at the same time urging banks to lend via the discount window.

But the Fed has also used its emergency lending powers under authority granted by Section 13(3) of the Federal Reserve Act to prepare a number of credit facilities to rescue flailing markets, something that the central bank had not done since the financial crisis.

Over a decade ago, the Fed created six credit facilities and used its emergency lending powers to provide financial assistance to AIG, Bear Stearns, Citigroup and Bank of America. The Dodd-Frank Act later amended Section 13(3) to prevent the Fed from bailing out specific firms.

In less than two months this year, the Fed has announced 11 different credit facilities, all intended to support the flow of credit to households and businesses that may have encountered financial difficulties as a result of the coronavirus.

Although the Fed has only officially fired up four of the 11 programs, the announcements on their own can serve to soothe markets and ease some financial pressure already.

"We haven't made any corporate loans in those facilities … and yet there's a tremendous amount of financing going on, and that's a good thing," said Fed Chairman Jerome Powell in an April 29 press conference. "The ultimate demand for these facilities is quite difficult to predict because there is this announcement effect that it really gets the market functioning again."

Powell also pledged to use the Fed's complete range of tools to limit economic fallout, saying that the central bank had the ability to expand existing facilities if needed.

Here's a breakdown of all of the credit facilities the Fed has established or announced using its emergency lending powers:

Commercial Paper Funding Facility

The Fed first flexed its 13(3) powers March 17 when it revived a 2008-era facility to provide a liquidity backstop for commercial debt issuers through the Commercial Paper Funding Facility.

Commercial paper consists of unsecured, short-term notes that businesses and municipalities often use to finance liabilities like payroll, accounts payable or other operational needs.

However, the commercial paper market became distressed as the coronavirus began rocking markets, causing investors to become wary of buying commercial paper, which in turn triggered soaring interest rates on longer-term commercial paper, according to the New York Fed.

In response, the Fed re-launched the facility that acts like a special-purpose vehicle buying unsecured and asset-backed commercial paper from eligible companies.

The Treasury Department is providing $10 billion of credit protection to the Fed for the commercial paper facility from the department's Exchange Stabilization Fund, and the Federal Reserve Bank of New York also has committed lending to the facility on a recourse basis.

"By providing short-term credit, the CPFF will help American businesses manage their finances through this challenging period," Treasury Secretary Steven Mnuchin said in a statement on the day it was announced. The CPFF will provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle that will purchase three-month unsecured and asset-backed commercial paper directly from eligible issuers.

Even before the facility was up and running, the Fed announced it would reduce the pricing associated with using the Commercial Paper Funding Facility, and expanded the program to include high-quality, tax-exempt commercial paper as eligible securities.

The facility began making purchases April 14. The Fed said as of that day the facility had issued $249.3 million in loans.

Primary Dealer Credit Facility

The Fed also announced March 17 that it would establish a credit facility for primary dealers — banks that buy government securities directly from the Fed and the Treasury.

The Primary Dealer Credit Facility was designed to "help address illiquidity, mitigate disruptions in funding markets, support smooth market functioning and help facilitate the availability of credit to American workers and businesses," Mnuchin said.

The facility, which became available March 20, is accessible to primary dealers of the New York Fed, and provides loans for terms of up to 90 days. Loans made under the PDCF are charged an interest rate equal to the primary credit rate at the New York Fed.

The Primary Dealer Credit Facility will be in place for six months, but could be extended, Mnuchin said in a statement.

As of April 14, the facility had issued $34.5 billion in loans, the Fed said.

Money Market Mutual Fund Liquidity Facility

The Fed announced the creation of the Money Market Mutual Fund Liquidity Facility March 19 in an effort to support money market mutual funds as the coronavirus continued to put pressure on short-term funding markets.

The following day, the Fed, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp. made a technical change to bank capital requirements that allowed banks to use the facility.

Through the facility, the Federal Reserve Bank of Boston makes loans to financial institutions that allows them to purchase assets from money market mutual funds.

Money market funds supply credit to banks and businesses by purchasing commercial paper.

Treasury is providing $10 billion of credit protection to the facility, which began lending March 23. The same day, the Fed announced that the facility would be expanded to include a wider range of securities, including municipal variable rate demand notes and bank certificates of deposit.

As of April 14, the Fed said the facility had issued more than $51 billion in loans.

Primary Market Corporate Credit Facility, Secondary Market Corporate Credit Facility

The Fed said March 23 it would establish the Primary Market Corporate Credit Facility to preserve the flow of credit to large investment-grade employers via new bond and loan issuance.

The central bank also said it was creating the Secondary Market Corporate Credit Facility to focus on outstanding corporate bonds.

In an April 29 press conference, Fed Chairman Jerome Powell said both facilities are "near being finalized."

The Primary Market Corporate Credit Facility was stood up to better position companies to be able to "maintain business operations and capacity," while the Secondary Market Corporate Credit Facility was created as a liquidity backstop for corporate debt, according to the New York Fed.

Treasury made an initial allocation of $50 billion to the Primary Market Corporate Credit Facility and $25 billion to the

Secondary Market Corporate Credit Facility.

The Fed also said April 9 that the two facilities would expand in both size and scope to support up to $750 billion in credit to corporate debt issuers.

The expansion allows companies that were investment-grade before the onset of the coronavirus but then subsequently downgraded after March 22 to gain access.

Term Asset-Backed Securities Loan Facility

The Fed said March 23 it would revive the Term Asset-Backed Securities Loan Facility to back the flow of credit to households and businesses. That facility will support the issuance of asset-backed securities backed by student loans, auto loans, credit card loans and Small Business Administration-guaranteed loans, which will offer some relief to those borrowers.

However, the program attracted criticism from some who had hoped the Fed would make consumer loans eligible to be securitized through the facility.

The Term-Asset Backed Securities Loan Facility — which is being called TALF 2.0 — will make $100 billion in loans until Sept. 30, unless it is expanded in size. Treasury is contributing $10 billion to the program through its Exchange Stabilization Fund to cover loan losses.

Like the TALF program from the financial crisis, this one will also impose a haircut on pledged collateral. The haircut schedule mirrors the one used for the 2008 TALF program.

The Fed said April 9 it would scale up TALF 2.0 in scope to include triple A-rated tranches of commercial mortgage-backed securities and newly issued collateralized loan obligations. The program has not yet been launched.

Paycheck Protection Program Liquidity Facility

The Paycheck Protection Program, administered by Treasury and the Small Business Administration, is designed to help small firms pay their employees and cover expenses during the pandemic. Many of the loans — made by banks, credit unions and other approved lenders — will be converted to grants if borrowers meet certain conditions.

The Fed on April 6 announced it would step in to help provide financing to banks so that they could issue more loans to struggling small businesses. The agency provided more information on the facility April 9, saying that the program would offer credit to financial institutions that originate PPP loans, taking those loans as collateral at face value.

Initially, the facility was only available to banks and other traditional lenders after it became operational April 16, but the Fed said April 30 that it would extend the program to certain nonbanks lenders after the SBA expanded lender eligibility.

Municipal Liquidity Facility

The Fed on April 9 said it would create a Municipal Liquidity Facility to support state and local governments with up to $500 billion in lending. Treasury committed to backing $35 billion for the facility using funds appropriated by the CARES Act.

The notes that municipalities will be able to sell through the facility should help cities and states get through a period of time with suppressed economic activity and lower tax revenues as many operate under stay-at-home orders.

Originally, the Fed said the Municipal Liquidity Facility would make short-term financing available to cities with a population of more than 1 million or counties with a population of greater than 2 million. But on April 27, the Fed expanded the program to counties with at least 500,000 residents and cities with at least 250,000 residents.

The Fed has also said that it is considering allowing government entities that issue bonds backed by their own revenue to participate in the Municipal Liquidity Facility as eligible issuers and "will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments."

The facility has not yet been launched.

Main Street Lending Program

The Fed said April 9 it would purchase up to $600 billion in loans through the Main Street Lending Program, which Congress allowed for in the stimulus package it passed in March.

Through the program, eligible businesses will be able to obtain four-year loans, with principal and interest payments deferred for a year. Those companies "must commit to make reasonable efforts to maintain payroll and retain workers" and comply with the stock buyback restrictions laid out in the CARES Act.

"The Main Street Business Lending Program will make a significant difference for the 40,000 medium-sized businesses that employ 35 million Americans," said Mnuchin. "This important Main Street initiative complements the robust relief efforts already underway such as the Paycheck Protection Program, Employee Retention Credits, and Economic Impact Payments, while protecting taxpayer funds."

Originally, the Fed said only small and midsize companies that either employ up to 10,000 workers or have less than $2.5 billion in revenue would be eligible for the program, but after receiving feedback the Fed expanded eligibility to companies with up to 15,000 employees or $5 billion in revenue.

The Fed also announced April 30 that it would cut by half the minimum loan amount available through the program to $500,000.

The program will consist of three separate facilities: the Main Street New Loan Facility, the Main Street Expanded Loan Facility and the Main Street Priority Loan Facility.

The Main Street Priority Loan Facility — which the Fed added April 30 — will issue loans up to either $25 million or six times the borrower's 2019 earnings before interest, taxes, depreciation and amortization.

The Main Street Expanded Loan Facility will enable banks to expand existing loans up to either $200 million or 35% of the existing bank loan, while the Main Street New Loan Facility will issue loans up to either $25 million or four times the borrower's 2019 earnings before interest, taxes, depreciation and amortization.

Borrowers can still obtain loans through the Main Street Lending Program if they have received loans from the SBA's Paycheck Protection Program.

At a press conference April 29, Powell said the Fed will "probably be continuing to work and expand Main Street for some time." He added that the program likely wouldn't be completed as quickly as the Primary Market Corporate Credit Facility and the Secondary Market Corporate Credit Facility.

He also emphasized that the program could be expanded if necessary to accommodate demand.

PAYCHECK PROTECTION PROGRAM

Regulators modify liquidity coverage ratio requirements

By Brendan Pedersen

May 05, 2020

WASHINGTON — Bank regulators issued a rule Tuesday modifying the liquidity coverage ratio to better enable banks to participate in two of the Federal Reserve's lending facilities and "support the flow of credit to households and businesses."

The rule is aimed at banks using the Fed's Money Market Mutual Fund Liquidity Facility and the Paycheck Protection Program Liquidity Facility, part of the central bank's response to the economic fallout from the coronavirus pandemic.

"The interim final rule facilitates participation in these facilities by neutralizing the LCR impact associated with the non-recourse funding provided by these facilities," the Federal Deposit Insurance Corp., Office of the Comptroller of the Currency and Federal Reserve said in a statement. "The rule does not otherwise alter the LCR or its calibration."

The interim rule will go into effect 30 days after being published in the Federal Register.

The LCR is meant to ensure a bank has enough high-quality liquid assets to cover 30 days of net cash outflows. Without the interim rule, regulators wrote, changes in cash flow tied to either the PPP or MMF lending facilities could "potentially result in an inconsistent, unpredictable, and more volatile calculation of LCR requirements across covered companies."

Given how inflow and outflow rates are typically calculated for the LCR, the agencies said sudden surges in cash from the Fed's lending facilities "could unnecessarily contribute to volatility in LCRs."

SOCIAL MEDIA

'This is shameful and I will advise the media': Tales from the Twitterverse

By Miriam Cross

May 05, 2020

"IS THERE A TEST OR SWAB TO FIND OUT IF I HAVE A RECOVERY REBATE, because right now, my bank is showing no signs or symptoms of having this alleged stimulus check," read a tweet addressed to USAA in April.

"This is shameful and I will advise the media," began another tweet from a customer whose insurance premiums had been raised.

As the pandemic continues to sow anxiety among bank customers, social media representatives at USAA and other financial institutions have become busier, fielding questions about stimulus checks, financial assistance programs, mortgage forbearance and more. Between posts expressing gratitude and gushing praise, they have also had to placate frustrated customers who take to Twitter or Facebook to complain about the status of their Paycheck Protection Program loan applications or about waiting on hold for hours on the phone.

Response times over social media are not necessarily better than other channels these days.

While in the past, customers who raised issues over social media could get their problem addressed quickly given the high profile, financial institutions have not maintained the same pace during the pandemic, said Steven Ramirez, CEO of Beyond the Arc, which helps companies with their social media strategies.

"The typical strategy is to say, 'We would love to help, please [direct message] us and we will ask for more details,'" Ramirez said. "What I have seen is people say 'Hey, I DM'ed you two days ago and I still haven't received any response.'"

Financial institutions have dealt with higher volumes across their Facebook, Instagram and Twitter accounts by bulking up their social media service teams, implementing new tools to speed up responses and posting hints about how customers can complete certain tasks themselves online.

At the same time, even banks with a well-oiled social media strategy may be missing a valuable opportunity to connect more deeply with customers, if they limit their outreach to the overall brand's social media accounts rather than encouraging individual advisers and employees to share content with their followers.

"Social media and all digital engagement have quickly shifted from nice-to-have to a must-have part of the omnichannel repertoire in a few short weeks," said Clara Shih, CEO and founder of Hearsay Systems, a company that helps advisers and agents with digital communications.

How banks are replying to posts and tweets

USAA, a largely digital financial services company, normally sees 10,000 to 15,000 posts directed to its Facebook, Instagram and Twitter accounts each month. In March, the number ticked up to 17,000. In April, it was just over 20,000.

To cover the higher volume, USAA bolstered its crew of social service representatives, from about 15 representatives who split their time between online chat and social media to 17 who are largely dedicated to social media.

Their goal: bring the interaction into a private channel as soon as possible, whether it is a direct message through the social media platform, phone call or online chat through USAA itself.

"It's a very desirable position within USAA to be on the social team," said Phil Leininger, senior vice president of omnichannel sales and service at USAA. "You're the face in a public sphere."

Still, social media is not the fastest way to get in touch with a USAA representative — or the most common.

A member can expect an answer to a direct query through social channels within 30 minutes, compared with three minutes by phone or online chat. (Retweets or shared posts may not get a response at all.) Before the pandemic, a busy month meant up to 15,000 social media posts directed at USAA from customers, compared with about two million phone calls and almost 100 million digital interactions.

But, "the social team is usually the tip of the spear," Leininger said. "It's a very small but important percentage of our interactions. Not all interactions are created equal. Often, those that come in the social channel are indicative of larger problems or larger praises."

For Truist Financial, social media is one part of a multipronged approach to handle higher call volumes. Other tactics include a call-back feature on a cloud-based platform and a chatbot to address mortgage payment relief. Customers of Truist's predecessor banks, BB&T and SunTrust, are encouraged to turn to their heritage brands over social media while the merged institution ramps up its Truist-branded content.

Since early March, the Truist, BB&T and SunTrust social media pages combined have seen four times the normal volume at times, with spikes in comments and inquiries concerning mortgage and loan payments, stimulus checks and the paycheck program.

As a result, Truist started cross-training employees in early April, including those in support areas and marketing. Now, it has more than tripled the number of representatives responding to clients. Truist declined to give exact figures.

JPMorgan Chase said it has also reallocated some staff to handle a 213% increase in customer service inquiries over social media over the last two months, largely through Facebook and Twitter. JPMorgan, too, declined to give exact figures.

To handle popular queries more efficiently, the bank enlisted Sprinklr, an enterprise software company, to build an automated tool for its Facebook Messenger service in April that answers the most frequently asked questions. It took less than two weeks to develop.

Facebook users who open up Messenger can choose from a list of topics, including "Branch," "Checking/debit card," "Mortgage," and "Stimulus & SBA PPP." They can continue to click through a narrower set of options that best match their query before arriving at a message that summarizes their next steps, or places them in line to speak with a human agent.

Humanizing the response

Leininger acknowledged that USAA's social media responses have been criticized for being boilerplate. One way the institution hopes to improve its personalization is to encourage members to provide their social media handles as part of their account details. In the event they interact with USAA over social media, automation could quicken the authentication process and allow the representative to have a fuller view of the member, rather than treating it as an isolated case.

Right now, handles are a voluntary piece of information that about 5% of USAA's members have supplied.

Besides personalizing interactions, banks can stand out by spreading their reach on social media through their employees.

"What is really differentiating the excellent bankers from the average is the human touch," Shih said. "No institution can convey empathy. Empathy is not a decision to waive fees or an automated message."

Instead, individual employees — such as branch managers, loan officers and wealth advisers — can convey empathy by sharing a "frequent, consistent drip of updates," she said. That can include sharing their contact information, the latest economic outlooks or community resources.

On Facebook, Hearsay found that a social media post is 40 times more likely to draw a response if it comes from an individual adviser or banker than if the bank posted that same message. This is because an individual's posts are more likely to show up in someone's newsfeed, and consumers are more likely to click on a post by an adviser than a corporate brand.

Doug Wilber, CEO of Gremlin Social, a social media management platform for banks, agreed.

"The banks that we're seeing have the most success recognize that banking is a very personal business where customers are looking for a trusted advisor," Wilber said. "The degree to which they can humanize their brands and empower their employees to be sharing content is really important right now."

CSBS

State regulators question timing, legality of OCC licensing proposal

By Brendan Pedersen

May 05, 2020

WASHINGTON — An association of state bank regulators delivered a broadside against the Office of the Comptroller of the Currency this week, accusing the national bank regulator of rushing a proposal to "update" banking licensing requirements that they say is a legal overreach.

John Ryan, CEO of the Conference of State Bank Supervisors, said in a comment letter that the OCC was attempting to ram through changes in bank merger law that would violate state authority.

"Our disappointment is only aggravated by the highly unusual process employed in issuing the proposal, by the questionable validity as to several aspects of the proposal, and by the general lack of clarity as to the intent and/or impact of many of the proposed reforms," Ryan wrote in his letter to the OCC, dated May 4, the day the proposal's comment period ended.

The agency issued the proposal on March 5, amid early signs of the coronavirus hitting the U.S.

Given the virus outbreak, Ryan said, the CSBS does "not understand how the OCC could conclude that this is an appropriate time to issue an over 60,000-word proposed rule containing over 2000 amendments to the OCC's licensing regulation."

Ryan also accused the OCC of adopting "a truncated notice-and-comment process" by setting the comment deadline 60 days after the proposal was published on the agency's website rather than 60 days after being published in the Federal Register. The latter often provides commenters additional time given the lag between the issuance of a proposal and it being published in the FR.

A spokesperson for the OCC declined to comment, citing agency policy of not responding to individual comment letters in the rulemaking process. The spokesperson said the letter "will be considered in the development of the final rule."

The OCC's notice of proposed rulemaking would eliminate certain "outdated" rules that govern corporate transactions, such as mergers, acquisitions and other activities. The proposal also included changes that would allow national banks to invest in entities not supervised by the OCC, and tweak how bank examiners incorporate "adverse comments" related to the Community Reinvestment Act into the bank merger approval process.

Ryan noted that while "current circumstances preclude an in-depth discussion of the substantive aspects of the proposal," state regulators believe several of the proposed changes "are likely legally invalid" and the proposal did not clearly articulate the "intent and impact of, as well as the legal basis for, several other proposed amendments."

The CSBS letter outlines several instances in which the state regulator association believed the OCC lacked the legal authority to make changes, ranging from conflicting case law to constitutional precedent.

"Corporate successorship and the transfer of fiduciary appointments, particularly in the context of transfers of rights and franchises from state to federal corporations are matters of constitutional import which Congress itself must resolve," Ryan wrote.

But Ryan also emphasized that the letter's listed grievances were not the only areas of the proposal likely to draw scrutiny. "Given the present need to devote resources to pandemic response and the time afforded to comment on the proposal, it is simply not feasible to ferret out and explain every instance of overreach," he wrote.

CONSUMER LENDING

U.S. household debt hit yet another record in 1Q, despite pandemic

By Bloomberg News
May 05, 2020

Americans increased their borrowing for the 23rd straight quarter to a total of $14.3 trillion, according to the Federal Reserve Bank of New York, the latest snapshot of household balance sheets entering what many experts believe to be a recession.

Total U.S. household debt rose by $155 billion in the first quarter from the previous three-month period, or 1.1%, the New York Fed's quarterly report showed. Overall household debt is now 28.2% above the second-quarter 2013 trough.

The steady increase in consumer borrowing has set records with every passing quarter, but still remains shy of the inflation-adjusted $15 trillion that Americans owed in 2007, New York Fed data show.

Mortgage borrowing rose by $156 billion to $9.71 trillion. More than 80% of mortgage originations were among borrowers with a credit score of at least 720, the highest percentage in seven years. The median Equifax Risk Score — in which lower scores indicate that a consumer could become seriously delinquent — rose to 773.

The current economic downturn tied to the coronavirus pandemic is likely to hit black households hardest, according to research from the St. Louis Fed. Black families are about 29% more likely than white families to fall seriously behind on their debt, even after accounting for traditional credit factors such as debt-to-income ratios and savings.

Americans could tap their credit cards for an additional $3 trillion before the start of the second quarter, around the time the virus began to spread across the U.S. and parts of the economy were shutting down. Such a buffer would undoubtedly help some households maintain their consumption if they lost their jobs, boosting an economy that is heavily reliant on consumer spending. But poorer households have less access to credit to weather the downturn.

The poorest households have at most $150 to draw on their credit cards, New York Fed data show. By contrast, in ZIP codes where the average income is less than $45,000, the median amount of available credit is around $1,900. In the highest income areas typical credit availability is close to $14,000.

Lenders last quarter tightened standards on credit cards, auto loans and other typical household debt, according to the April Senior Loan Officer Opinion Survey on Bank Lending Practices, released Monday.

Banks generally tightened standards for household loans last quarter as demand for credit fell, according to a Fed survey of bank lending officers. In recent weeks some banks, such as JPMorgan Chase, have increased minimum credit scores for certain types of mortgages.

Auto debt, which has risen for 36 consecutive quarters, increased $15 billion from the previous quarter to $1.35 trillion. More than 5% of auto loans are 90 days of more delinquent. This is the highest percentage since the first quarter of 2011.

Credit card delinquencies rose to 9.09% the highest level in more than two years.

About 189,000 consumers had a bankruptcy notation added to their credit reports last quarter, but the Fed said that the latest report reflects a time when many of the economic effects of the COVID-19 pandemic were only starting to be felt.

"We do see a larger-than-expected decline in credit card balances based on past seasonal patterns, but it is too soon to confidently assess its connection to the pandemic," said Andrew Haughwout, senior vice president at the New York Fed.

Americans with federal student loan debt received a six-month reprieve thanks to the automatic suspension of their interest and payments by the recently passed federal stimulus package.

DIGITAL BANKING

How bankers think about Gen Z

By Penny Crosman
May 01, 2020

When the coronavirus quarantine is over and life returns to some version of normal, banks will need to go back to thinking about how they will work with the next generation of young adults.

Some fintechs are already doing so. One startup, GoHenry, which targets kids aged 6 to 18 with a banking app and debit card, announced this week that it's reached the milestone of a million customers. According to the company, those customers contributed more than $13 million to the U.S. economy and spent more than $4.5 million online at stores like Microsoft, Apple, Amazon, Google and Playstation.

In a webcast this week, bankers shared how they think about this segment of consumers and how they intend to reach out to them.

Young minds shaped by the coronavirus

Generation Z members are roughly in the 6-to-24 age bracket. There are 2.47 billion of them — almost 30% of the population.

They are growing up in a strange time, having to practice social distancing when many just want to be with their friends.

Many of those over 18 are struggling financially, particularly since much of the nation went on lockdown to help slow the spread of the coronavirus. A recent Harris poll found that workers under the age of 22 are losing more work hours than any other demographic and almost one-third of Gen Z workers have been put on leave. A Harris/Nerdwallet survey found that 46% of this population receive help from family members for housing costs and 41% feel anxiety about their personal finances.

And those under 18 are affected by their parents' economic difficulties.

"Watching the news headlines that we're seeing, reporting historic unemployment numbers, will ultimately have a sobering impact on their psyches," said Julia Carreon, the managing director of digital and fiduciary operations at Wells Fargo Wealth Management. "Early indications are that this generation is likely to face difficulties with employment savings and reaching milestones."

Many Gen Zers' financial worldview was shaped by the financial crisis, Carreon added.

"Seeing their parents lose their jobs, watching older millennial siblings move home and the rise in higher education tuition and student debt has resulted in Generation Z having a more conservative view of finances," she said. "They're even more conservative and worried than millennials were."

They're now called Zoomers, she said, because psychologically they have moved closer to baby boomers in their views.

Zoomer preferences

"I think of them as super-technology-obsessed boomers," Carreon said. "They have a tendency towards frugality and moderation."

They are also entrepreneurial minded, she said: 72% say they want to own their own business.

"Think about Kylie Jenner building her [cosmetics] business on the back of social media," Carreon said.

This generation is socially conscious. Greta Thunberg, the social climate activist who recently turned 17, led the largest climate strike in history in September.

"Sixty percent say they want to change the world," Carreon said.

Products matter more to this group than experiences, Carreon said. She pointed to the example of Nike, which has been infusing its products with socially conscious messages that seem authentic.

"My favorite example is their signing of Justin Gallegos, the first athlete with cerebral palsy to get a contract with a major brand," she said.

Nike ran a video of Gallegos running a marathon and then signing a contract with the company.

"My 14-year-old son is the one who brought that to me," Carreon said. "So when you're thinking about the kinds of products that would appeal to them, understand that experiences matter and authentic experiences matter even more."

But the most important thing to realize about Generation Z from a preferences perspective, according to Carreon, is that they are the first generation to be born with a smartphone, Carreon said.

"They've literally rewritten the book on being a digital-first generation because for many, their first memories are of playing video games on their moms' smartphones when they were toddlers," she said. "They're going to grow up expecting offline experiences to be as immersive and intuitive and visually rich as they grow up."

The frugality of this generation could easily be appealed to with automated savings apps and help in keeping debt levels down. The idealism could be addressed with bank policies such as a commitment not to lend to companies that develop oil pipelines. Banks could tap into the entrepreneurial spirit of this segment with apps designed for very small businesses and gig economy workers.

Wells Fargo offers checking accounts to kids, teens and students with mobile and online account access and text and email alerts. For kids and teens, it lets parents review account activity and move money from their accounts to their children's.

It's also experimented in the past with virtual reality experiences for clients. For instance, it used to bring Oculus Rift headsets to public events like rodeos for consumers to play a virtual maze game.

Jeffrey Ruben, president of WSFS Mortgage, a subsidiary of Delaware-based WSFS Bank, said he thinks a lot about Gen Z — WSFS's future customers — and their preferences. "This is a cohort that grew up on technology, so clearly that is a key to the door," he said. "If you do not have technology, if you're not up on your applications and your online presence, you're going to lose this group of people. They will not go to the next step."

His bank's research also shows that Gen Z has a desire for and expectation of human interaction.

"They want that high touch," Ruben said. "They want to speak to a person with knowledge in this area of finance when it comes to homebuying. So you need to have the right technology, but you'd better be able to meet them on a personal level as well. Otherwise you'll lose them."

WSFS recently acquired Beneficial Bancorp. When the deal was announced in 2018 WSFS said it would spend $32 million over five years in a "delivery transformation" for all customers. Last year it accelerated the timetable to three years.

One of the ideals is to give customers a seamless experience between branch and digital banking. In 2019, the bank introduced several new digital products, including my WSFS, a messaging application staffed by local bankers. This app is similar to Umpqua's GoTo Banker. It lets users choose a human banker based on shared interests, such as music or college attended, and communicate with that person by text about any banking needs.

Ruben expects that with their interest in doing things by phone but still having human interaction, myWSFS should appeal.

"This is something that I think Gen Z would be very interested in," Ruben said. "It is a live banker helping you with your banking needs through the mobile app. We have seen use of this double during COVID-19 from all our customers and we have also seen a major spike in online and mobile use."

One thing WSFS is doing is recruiting younger professionals into the mortgage industry.

"The average age of a mortgage loan originator is in the mid-50s," Ruben said of the industry at large.

The bank has developed programs to train college graduates to become mortgage loan originators who could talk in a relatable way with Generation Z.

"We think that will create more relevancy and reliability for our products," Ruben said.

BANKTHINK

Dear bankers: Don't return to your old, shareholder-first ways

By David Silberman

May 05, 2020

Millions of Americans have already received their economic relief payment from the government, and millions more will be receiving it in the coming weeks, in an effort to stave off severe financial woes amid the coronavirus pandemic.

But whether these checks provide much-needed relief will depend, at least in part, upon actions taken by financial institutions.

When money is deposited into checking accounts, banks determine how much of that money is immediately available to the consumers to spend. Banks generally operate under the premise that if the customer owes them money — like having overdrafted an account, for example — the bank will first reclaim that money off the top, along with any fees due to the overdraft.

Similarly, to the extent that there are past-due payments on a loan, banks can claim that payment, along with any late fees, before making relief funds available to the consumer. Further, some banks have structured loans as "deposit advances" so that payments become due and are automatically clawed-back whenever money is deposited.

Even having a more conventional loan with regularly scheduled payments, as soon as the payment comes due, banks may be able to put themselves first in line to quickly grab money from consumers' accounts. Indeed, with modern technology creditors who do not even have a banking relationship with their customers may still be able to monitor banking accounts in real time and fuel a race to get repaid as relief-check deposits arrive.

Through the coronavirus aid bill, Congress protected these relief checks from claims for debts owed to the federal or state governments, and some states have provided protection from garnishment or attachment as well.

However, Congress did not shield the money from private claims. And it is unclear whether state actions apply to self-help measures by banks. Indeed, Treasury officials have reportedly advised banks to make "business decisions" about whether to skim money from the recovery rebates to repay loans and fees. Absent government action, many consumers will be affected by these business decisions that will determine how much damage the coronavirus does to their financial health.

Even before the coronavirus national emergency, a sizable portion of Americans were financially vulnerable and an even larger group were barely coping financially. For example, research conducted by the Financial Health Network found that 27% of adults had already skipped needed medical care because they could not afford it, and 34% were unable to pay their bills on time in a 12-month span from 2018 to 2019.

An even larger group, at 48% of the adult population, reported lacking sufficient liquid savings to cover three months of living expenses. Many of these Americans will need every dollar of their recovery rebates to meet their basic needs.

Financial institutions concerned with their customers' financial health — as they all should be — would do well to heed Hippocrates's edict, "First, do no harm." This means, at minimum, banks should refrain from taking money off the top for negative balances, past-due loan payments and penalty fees. Beyond this, during the period of the national crisis, financial institutions should place a moratorium on charging such fees as well as on aggressive collection tactics, such as repossessing automobiles.

Some financial institutions have made a promising start by providing consumers with full access to their relief funds and imposing moratoria on certain penalty fees for limited periods of time. But more is needed to avoid magnifying the financial devastation of this crisis.

Financial institutions should follow the lead of selfless medical providers by responding to the crisis in ways that will ease financial pain and help consumers along the road to recovery. This means working with customers who, through no fault of their own, cannot afford to make monthly payments on their loans. In response, lenders should adjust the terms as needed.

Congress already has mandated forbearance for federal-backed mortgages and most (although not all) federal student loans. However, relief bills have left out hundreds of millions of consumers with auto or credit card loans. For these consumers, financial institutions have a critical role to play in working with their customers to arrive at arrangements that provide immediate sustainability and until the crisis has abated. Many institutions have announced their willingness to do so.

In times like this, liquidity becomes a key need for many. Some institutions have announced plans to waive limits on withdrawals from savings accounts and penalties for early withdrawal of CDs. Unfortunately, many consumers lack such savings to fall back on. And in a time of economic contraction, credit tends to tighten precisely when it is needed most.

Federal regulators have recently encouraged financial institutions to offer so-called "responsible small-dollar" loans. In doing so, the regulators seemed to have blessed what they call "appropriately structured single-payment loans."

The Financial Health Network has long championed well-designed, quality small-dollar loans. But such loans should be affordable and structured to support repayment without reborrowing. For example, U.S. Bank's decision to reduce the annual percentage rate on its 90-day, small-dollar installment loans is an encouraging development.

During this time, it is also important to acknowledge the costs that the financial sector will incur. No matter how well the government succeeds in directing relief to hard-hit consumers, there will almost surely be a significant increase in credit losses.

Placing a moratorium on auto repossessions could add to those losses. Moreover, by forgoing penalty fees and reducing interest rates to accommodate struggling consumers, financial institutions will be foregoing revenue that could be used to offset these losses. Even at a time of record-low interest rates, this may be especially difficult for small financial institutions serving low- and moderate-income families, as well as the emerging fintech sector. The nation should be mindful of institutions that provide such help.

Some financial institutions are taking actions to protect their customers' financial health at the cost of not returning profits to shareholders in the near term. But those customers will always remember the bank was there for them in such a critical time of need.

For those playing the long game, there is a strong business case for prioritizing customers' financial health during this crisis.

This is a time when the first priority of the financial system must be to attend to consumers' financial wellbeing as well as for the sake of the nation's health.

David Silberman joined the Financial Health Network in March 2020 as senior adviser.

LIBOR

Libor goes from dying to in demand with Fed pushing fast loans

By Bloomberg News
May 06, 2020

Regulators on both sides of the Atlantic have spent the better part of three years trying to kill the London interbank offered rate. Now, they're looking to it once again to underpin hundreds of billions of dollars in loans as they seek to rescue their economies.

U.S. policymakers last week changed tack and turned to Libor as the benchmark for their $600 billion Main Street Lending Program, which will buy debt from potentially hundreds of companies. The move came a day after U.K. officials granted banks a six-month extension to keep issuing loans tied to the beleaguered reference rate, which is supposed to be phased out by the end of 2021.

The timetable to do away with the benchmark linked to trillions of dollars of financial assets appears increasingly at risk as central bankers lean on Libor to help expedite their massive stimulus efforts. As they lend legitimacy to the much-maligned rate, some market watchers say it's highlighting the shortcomings of replacements, while others note it could ultimately lead to a more difficult transition down the road.

"The crisis does make it tougher and it will put a lot more time pressure on meeting the deadline," said Darrell Duffie, a finance professor at Stanford University who has written extensively on Libor. He called the Fed's decision, while necessary, "very unfortunate" and a missed opportunity to pivot away from the benchmark, adding that it's a sign that U.S. lenders "were not getting ready" for the transition.

SOFR troubles

For their part, the banks planning to participate in the facility argue that rapidly implementing new systems to issue loans based on the Fed's preferred replacement — the Secured Overnight Financing Rate — would have diverted resources from other challenges related to the COVID-19 pandemic.

The switch from SOFR to Libor was a "practical consideration, because these programs are designed to quickly disperse funds in unprecedented environments to those in need," Tom Wipf, chairman of the Fed-backed Alternative Reference Rates Committee overseeing the Libor transition in the U.S., said in a statement last week.

Yet some say the reversal shines a light on critical deficiencies in SOFR.

These include the lack of a term structure, absence of a credit component and susceptibility to periodic volatility in the market for repurchase agreements that determine the benchmark's setting.

"SOFR alone would be a terrible lending index," said John Coleman, senior managing director of the fixed-income group at R.J. O'Brien & Associates in Chicago. "Libor is terrible because it acts in a dysfunctional way because nothing trades in it. What used to be good isn't really working and what's supposed to be replacing it isn't really working."

Three-month Libor slid to 0.474% Tuesday, the lowest since 2015, while SOFR last set at 0.05%.

The Fed's decision to rely on Libor follows a similar move in the U.K., where policy makers are leaning on the rate to help pump emergency funds to businesses ravaged by the outbreak. Banks can now issue Libor-linked loans through the end of March 2021 after the Financial Conduct Authority pushed back the drop-dead date from the end of September.

"People are significantly distracted with things like getting their heads around emergency funding schemes to keep businesses afloat," said Paul Mullen, a partner at the law firm Hogan Lovells in London. That's "diverting resources away from thinking about Libor transition."

End near?

As the focus switches to whether regulators will ultimately push back the 2021 deadline, both U.S. and U.K. officials have remained steadfast. Still, they acknowledge that certain near-term goals and milestones will undoubtedly be missed.

That could make ditching the ubiquitous reference rate that much harder. Loans via the Fed's Main Street Lending facility will have a four-year maturity, taking them well beyond the 2021 cutoff point.

While policymakers are reminding lenders and borrowers to include fallback language in new Libor-based contracts, the decision will ultimately mean billions of dollars of additional debt that will need to be transitioned to a new benchmark.

"The overall effect will be to create a large volume of new Libor-linked products, potentially exposing all parties participating in the loans to the risks inherent in renegotiating the switch," said Rupert Lewis, head of banking litigation at Herbert Smith Freehills LLP in London.

REFINANCE

Cash-out refis dry up as price hikes prove too costly

By Kate Berry
May 04, 2020

Cash-out refinancing is drying up as banks and mortgage lenders tighten underwriting standards to cover the risk of millions of borrowers seeking forbearance on their home loans.

Despite ultra-low interest rates and the need by many homeowners to raise cash because of job losses and economic uncertainty, many homeowners are priced out of the market for cash-out refis, lenders say.

Mortgage lenders have released new rate sheets in the past week showing higher credit scores and loan-to-value ratios plus added fees for cash-out refis. The changes are in response to the Federal Housing Finance Agency's policy last month that excludes cash-out refinancing from the single-family loans that Fannie Mae and Freddie Mac will buy in forbearance.

"Pricing for cash-out loans is so bad that it's not even worth quoting to a borrower — they have shut this market out," said Logan Mohtashami, a senior loan officer at AMC Lending Group in Laguna Hills, Calif. "No one wants the business so lenders price the mortgage rate on a refinance so high that it doesn't make sense to cash out."

Last week, Flagstar Bank in Troy, Mich., announced that homebuyers will pay a price adjustment on a cash-out refi of 5% of the loan amount. The fee does not apply to home loans originated by the $26.8 billion-asset bank's own retail loan officers, a Flagstar spokeswoman said.

PennyMac Loan Services, in Westlake Village, Calif., eliminated cash-out refinancing for loans with LTV ratios higher than 80%. A homeowner with a credit score of 700 to 720 and 20% equity in a home would pay a rate of more than 6% to tap their equity; borrowers with a 640 credit score would pay a rate of more than 8%. PennyMac, one of the largest nonbank lenders, also is charging a $1,000 fee for loans it purchases from wholesale brokers and independent mortgage bankers.

Wells Fargo was the first bank to completely eliminate all cash-out refis, in early April, said Tom Goyda, a Wells spokesman. JPMorgan Chase raised overall underwriting requirements last month to a minimum 700 FICO and 20% LTV.

"If you can't get a cash-out refi and you are a small-business owner, the next step is forbearance, where you are not going to pay your mortgage," said Dave Stevens, CEO at Mountain Lake Consulting and a former head of the Federal Housing Administration.

Cash-out refinancing rose dramatically from 2002 to 2007 and was a contributing factor to the 2008 mortgage crisis when borrowers tapped so much equity in their homes that many simply stopped paying their mortgage.

Last year, roughly 13% of homeowners with loans owned by Freddie Mac took out roughly $91 billion through cash-out refis, according to Freddie data. Cash-out refis hit a peak in 2006, when Freddie borrowers alone tapped $320.5 billion in home equity.

Kevin Peranio, chief lending officer at Paramount Residential Mortgage Group in Corona, Calif., said the change in the FHFA's policy will affect homeowners with the lowest home values.

"Tapping into equity just got more expensive for consumers and it really has an impact on the lower end," Peranio said. "What all these lenders are doing is modeling in risk and adding a hit for every cash-out refinance that they do so they can absorb those losses and offset the risk for borrowers who do ask for forbearance.

The cost of refinancing a loan also has become less profitable for lenders because of early payoff risk.

Mortgage lenders typically charge roughly $10,000 to refinance a loan, but it takes roughly 18 months to break even. With already-low rates potentially dropping further in the months ahead, lenders also have to price in the cost of early payoffs by borrowers who may refinance again in the year ahead.

More than 30 million people who have filed for unemployment in the six weeks since the coronavirus outbreak forced employers to shut down and lay off workers. Few in the mortgage industry think the reopening of businesses will reverse the higher standards for cash-out refis.

"When jobless claims comes down, cash-out refis will be back," Mohtashami said. ❑