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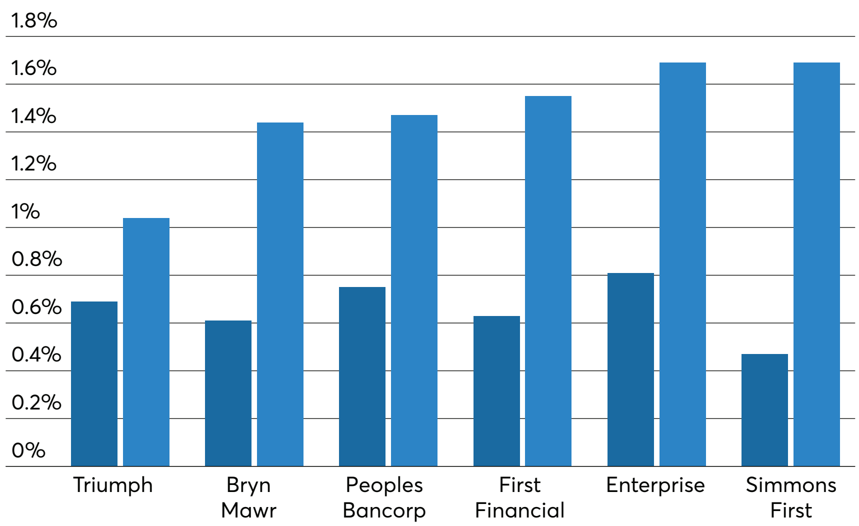
Building reserves

Several small banks adopted CECL and raised provisions for coronavirus-related loan losses. Figures represent loan-loss allowances as a percent of total loans.

● 4Q19 ● 1Q20 | See story on page 3



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dailybriefing

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TRUMP ADMINISTRATION

Will Congress's coronavirus response watchdog have any teeth?

By Neil Haggerty

April 22, 2020

WASHINGTON — An oversight panel to scrutinize Treasury Department and Federal Reserve lending programs aiding businesses hurt by the coronavirus could create a clash between the legislative and executive branches, observers said.

Members of the Congressional Oversight Commission, created by last month's $2 trillion stimulus bill, are appointed by lawmakers as a watchdog over key areas of the virus response, including the Federal Reserve's emergency lending facilities and Treasury Department loans to sectors hit hard by the pandemic.

While the commission's jurisdiction is not directly tied to the support provided for banks to lend to small businesses, members of the panel and other experts expect banks could be called to testify.

"I imagine that we should be seeking information from anyone who has relevant information," said Bharat Ramamurti, a former adviser to Sen. Elizabeth Warren, D-Mass., who was appointed to the panel by Senate Minority Leader Chuck Schumer, D-N.Y. "And, yes, that includes the banks and, yes, I think that should include the companies that get money through these lending facilities as well."

Experts say the bipartisan panel's work will not be easy. Despite backing from congressional leaders, the commission lacks subpoena authority, which could hinder its ability to compel information from the administration on the allocation of roughly $500 billion authorized for emergency lending programs.

Still, the commission is expected to use its bully pulpit to wield influence.

"The panel lacks subpoena authority, but it does enjoy the benefit of a public platform to critique the administration for failing to share information, as well as to comment on perceived issues or failures in implementing the program," said Preston Burton, a partner at Buckley. "If there is consensus and unanimity of the bipartisan panel, that will carry significant weight with the public and bodies that do enjoy subpoena power."

Many have compared the commission to the former Congressional Oversight Panel, created in 2008 to scrutinize the Troubled Asset Relief Program, the government's bank bailout in the midst of the mortgage crisis. That panel helped raise the profile of Warren, who chaired it before launching her political career.

The Coronavirus Aid, Relief, and Economic Security Act mandated that congressional leaders appoint five members of the COC to oversee the Fed and Treasury's implementation of the economic stabilization provisions of the legislation. All but one of the five commissioners have already been chosen.

It is charged with monitoring allotments to the Treasury's Exchange Stabilization Fund. They include nearly $50 billion in Treasury loans, loan guarantees and investments for industries such as air travel and firms critical to national security. The commission will also monitor the more than $450 billion that Congress directed Treasury to invest in the Fed's emergency lending facilities used to pump more liquidity into the financial system.

"Whenever this much money is spent, there is always an opportunity to significantly raise the profile [of commission members] and establish a clash with the administration," said Ed Mills, a policy analyst at Raymond James.

Even though the commission is not designed to focus on the Paycheck Protection Program — the small-business lending program facilitated by banks that was drafted in a separated section of the CARES Act — efforts by financial institutions could fall under the panel's purview because of their backing from the Fed.

Rep. French Hill, R-Ark., a member of the House Financial Services Committee who was appointed to the commission by GOP leaders, said decisions by the Fed and Treasury involving banks could be scrutinized by the commission.

"To the extent they delegate some of that responsibility to the commercial banking or investments banking sectors, those decisions and that analysis will be reviewed in sort of the ordinary course of reviewing those transactions," Hill said.

House Speaker Nancy Pelosi, D-Calif., selected Rep. Donna Shalala, D-Ohio, to sit on the panel. Senate Majority Leader Mitch McConnell, R-Ky., appointed Sen. Pat Toomey, R-Pa. Pelosi, and McConnell will choose the fifth member.

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Despite the CARES Act's requirement for the commission to report monthly to Congress, some suspect Treasury may resist requests for information. The Trump administration has already faced criticism for the firing of acting Defense Department Inspector General Glenn Fine, who was being tapped to run the Pandemic Response Accountability Committee, which has authority to oversee the entire CARES Act.

"Look at how the White House and Treasury have completely ignored Congress's subpoenas," said a former senior Senate staffer.

Burton said the previous oversight panel scrutinizing the management of TARP ran into resistance trying to get information.

The TARP "panel's report talks about the lack of transparency from the Treasury at least at the outset, and that was while dealing with prior administrations that were not as resistant to oversight as this one has been in a variety of circumstances," Burton said.

Treasury Department officials, however, counter that they are committed to transparency in the implementation process. At a White House press briefing earlier this week, Treasury Secretary Steven Mnuchin touted the "independent oversight" included in the bill.

"We had no obligation to do this. We put up … full transparency on the money that had been sent out on the PPP across states, showing all the big lenders, how it was distributed," Mnuchin said. "So, again, the president and I very much believe in full transparency. We're spending a lot of money, and we want to make sure that it's done effectively and fairly."

A spokesperson for the Fed said the central bank intends to cooperate fully with the oversight panel.

"The Federal Reserve is accountable to the public and Congress and will work with the commission to be transparent about the Fed's efforts to support the economy during this difficult time," the spokesperson said.

Hill and Ramamurti said that the size of the stimulus package warrants strict scrutiny.

"Our principle obligation are to the House and Senate to make sure that the Fed and the Treasury that are using an unprecedented amount of public resources … go about that implementation with adherence to the statute, transparency, and with the best interest of the country and the taxpayers front and center," Hill said. "We've never seen an exchange stabilization fund of the amount of $500 billion levered."

Ramamurti agreed that "if you are administering $500 billion of taxpayer money, it's reasonable to come answer some questions about what you're doing about it."

But the former Senate staffer said Treasury could stonewall the commission. "Treasury is not going to be very excited about having to answer to a commission. They agreed to it in the bill, I get it. It's in there. Mnuchin cut the deal. But I can't imagine they're going to care all that much about what this commission says or does."

Still, Ramamurti said he expects the commission will use all possible outlets to obtain information.

"If the Treasury Department decides not to provide that information or isn't cooperating with the commission, we have to figure out what happens at that point," Ramamurti said. "I think it's important that the commission be creative in terms of using every tool available to it to get this information. That for example includes seeking information from companies directly, working with other oversight bodies and try and get access to information that other oversight bodies might have that we don't."

While it is still early in the implementation of the CARES Act, Ramamurti said he already has concerns. He said he is worried that there aren't any strings attached to the loans from the Fed's facilities, including the Main Street Lending Program — which makes bank loans available to midsize businesses — in terms of limitations on buybacks, dividends and executive compensation for the companies receiving the loans.

"There were certain recommended restrictions in the bill that the Treasury and the Fed have not chosen to adopt," Ramamurti said. "So again that money is set to go out the door without the types of conditions attached to it that Congress seemed to recommend."

CREDIT QUALITY

Why some small banks are taking their CECL lumps now

By Jim Dobbs
April 22, 2020

Many banks were forced to make hard choices in the first quarter when calculating loan-loss provisions.

The first decision involved the Current Expected Credit Losses standard, which requires provisions when loans are originated. While the coronavirus rescue package passed late last month provided a short-term reprieve from CECL, a large number of publicly traded banks opted to go ahead and comply.

For those banks, the next decision involved the size of their provision.

Predicting losses in the run-up to a fast-approaching recession of uncertain duration involves as much guesswork as traditional forecasting, industry observers said. Analysts, by and large, said they favor the banks that chose to go ahead and set aside substantial sums of money to cover potential credit issues.

"Some banks are trying to be as accurate as they can for this quarter, knowing what we know now," said Brad Milsaps, an analyst at Piper Sandler.

"Others are saying it is better to get the provisions built up as much as possible, and reverse them out later if you need to," Milsaps added. "I think the latter is what more people are wanting to see."

Home BancShares in Conway, Ark., chose to comply with CECL and absorb more financial pain now rather than drag it out over several quarters, relying heavily on projected 12.5% national unemployment to determine its provision.

The company set aside $87 million in the first quarter, including $72 million to specifically address fallout from the coronavirus outbreak. Its loan-loss allowance increased to 2.01% of total loans from 0.94% a quarter earlier.

"We're going to get it behind us if we can get it behind us," Johnny Allison, Home's chairman and CEO, said during the $15.5 billion-asset company's quarterly earnings call.

"I like our book about as well as I've ever liked the book," Allison said before observing that he had just endured the "strangest" quarter in his 50-year business career.

Though Home barely eked out a profit, its stock is up 4% since it reported results.

Several other banks, including Peoples Bancorp in Marietta, Ohio; Bryn Mawr Bank in Bryn Mawr, Pa.; and Triumph Bancorp in Dallas, reported quarterly losses after recording large CECL- and coronavirus-related provisions.

"We believe that moving forward with the adoption of CECL was the most appropriate path to take," Chuck Sulerzyski, Peoples' president and CEO, said during the $4.4 billion-asset company's earnings call. "Prolonging the inevitable was not something we wanted to keep addressing in the future quarters."

Peoples set aside $17 million, boosting its allowance to 1.47% of total loans from 0.75% at the end of 2019.

The decisions highlight a banker's thought process rather than predict that specific losses will occur, industry observers said.

"As we progress further through this earnings season, it's becoming evident to us that [first-quarter] results seem more a function of a company's initial approach to this crisis as opposed to an early read of … problematic exposure and likely ultimate loss content," Joseph Fenech, an analyst at Hovde Group, wrote in a recent client note.

CECL also played a big role in how adopters approached their provisions.

First Horizon Financial in Memphis, Tenn., recorded a $145 million provision, a spike from $13.4 million a year earlier, to reflect a "sudden, steep decline" in economic conditions. The provision contributed to an 85% decrease in profit from a year earlier, to $16.6 million.

CECL's life-of-loan requirements contributed to the higher provision, B.J. Losch, the $47 billion-asset company's chief financial officer, said in an interview.

"The world changed" in the first quarter, Losch added, though he hopes federal stimulus efforts such as the Paycheck Protection Program and bankers' proactive efforts to help borrowers will soften the economic blow.

"We'll probably need another 90 days, maybe 120 days, to get a better sense of how well these things are working," Losch said.

Industry experts agreed.

"We may likely be [three to six] quarters out from fully understanding if the extensive fiscal and monetary stimulus is enough to bridge both the consumer and the corporate borrower to the other side of this crisis," Laurie Havener Hunsicker, an analyst at Compass Point, wrote in a recent client note.

As a result, some banks are taking a more incremental approach to the loan-loss allowance.

While Western Alliance in Phoenix set aside $51 million, or more than 10 times its average quarterly provision in 2019, its allowance covers roughly 1% of a loan book that includes exposure to hotels, casinos and other businesses harmed by the pandemic.

Net income fell by 30% from a year earlier to $84 million, and executives warned that an extended shutdown of the economy could spur another reserve build in the second quarter.

Economic predictions "change almost by the hour," Dale Gibbons, Western Alliance's vice chairman and chief financial officer, said during the $29 billion-asset company's earnings call.

Community Bank System in De Witt, N.Y., may also need to set aside more money after recording a $5.6 million provision in the first quarter, Chief Financial Officer Joseph Sutaris said when analysts asked why the company wasn't more aggressive.

"We're going to be evaluating observed data with respect to delinquency and migration of risk ratings and those types of factors," Sutaris said, adding that executives made the best assessment possible at this point.

The $11.8 billion-asset company's profit fell by 4.5% from a year earlier, to $40.1 million.

A large part of decision making involves subjective views of the same data, industry experts said. Executives at Home and Western Alliance said they both reviewed April assessments by Moody's that projected a steep recession and soaring unemployment.

Many other issues remain unclear, including the impact of federal stimulus and the future performance of loans that were modified or granted forbearance, industry experts said.

"Will the borrower who has received payment relief or forbearance eventually return to fully performing status or become a" net charge-off? Hunsicker said.

It "may be smart" to record a big upfront provision, said Damon DelMonte, an analyst at Keefe, Bruyette & Woods. "But because it's so hard to make a reliable forecast in this environment you do run the risk of the provision being too severe."

EARNINGS

V-shaped recovery? More like a U, Huntington chief says

By John Reosti
April 23, 2020

Huntington Bancshares in Columbus, Ohio, is hunkering down.

Stephen Steinour, the $114 billion-asset company's chairman, president and CEO, delivered a sobering message Thursday while reporting first-quarter earnings. Steinour, who led Huntington through the financial crisis, told analysts he fears the recovery from the coronavirus pandemic will be slow and arduous.

While many bankers have expressed hopes for a sharp "V-shaped" rebound once the pandemic ends, Steinour said he is squarely in the camp that believes in a "U-shaped" recovery where "the economy doesn't recover back to pre-COVID levels until 2022."

That view especially holds true in the energy sector.

Nonaccrual loans in Huntington's oil-and-gas portfolio more than tripled from the end of 2019 to $195 million, or roughly 16% of the entire book.

About 15% of Huntington's provision was tied to those borrowers. The company's oil-and-gas reserve now covers a fifth of that portfolio.

Steinour, who worked with troubled oil-and-gas credits as a banker in the 1980s, drew comparisons between that era and today.

“You can see there was a very long recovery” in the late 1980s, Steinour said during Thursday’s call. “I think that’s where we are now.”

The energy sector comprises just 1.5% of Huntington’s overall loan portfolio.

Economic fallout from the coronavirus outbreak has sapped demand for oil, resulting in a massive supply glut that has hammered oil-and-gas firms and their lenders. The energy market went into a tailspin Monday as May futures contracts for WTI crude traded at negative prices.

Like Huntington, other energy lenders set aside more money to cover energy exposure.

Comerica increased its reserve to represent a tenth of its $2.1 billion energy portfolio, while Texas Capital Bancshares boosted its coverage to 8.8% of its $1.3 billion book.

Provision expenses took a toll on their quarterly results. The $76.3 billion-asset Comerica lost $65 million, while the $36 billion-asset Texas Capital reported a loss of $16.7 million.

Harris Simmons, chairman and CEO of the $71 billion-asset Zions Bancorp. in Salt Lake City, said risk in energy lending will need to be watched closely over the next six to 12 months. While the balance of supply and demand should improve, Simmons said he expects a “new normal” where prices may not return to pre-pandemic levels.

“These are unprecedented market conditions that over the short run are going to be driven by totally unseen before shifts in demand,” Simmons said during his company’s earnings call.

As for overall loan exposure, Huntington’s $441 million provision boosted its loan-loss allowance to 1.93% of total loans, or nearly double where it was just three months earlier. The company set aside a total of $287 million last year.

Elevated provisioning will likely continue over several quarters, Chief Financial Officer Zachary Wasserman said during the earnings call.

“You should expect us to be conservative,” he said.

Net income fell 87% from a year earlier to $48 million.

While facing challenges with commercial lending, Steinour expressed comfort with the resiliency of Huntington’s consumer portfolio, which includes $12.9 billion in indirect auto loans.

“We haven’t had a charge-off in auto in two decades,” Steinour said. “I have a lot of confidence in that portfolio.”

Steinour also provided an update on Huntington’s participation in the Paycheck Protection Program. The company was among the 10 biggest participants in the program’s initial round, securing approvals for nearly 26,000 PPP loans totaling roughly $6 billion.

Nearly 1,000 Huntington employees have been working on Paycheck Protection applications, Steinour said.

“We’re working seven days a week, multiple shifts,” he said.

“We’re doing everything we can to help as many small businesses as possible,” he added. “I haven’t seen anything like it and I hope I never do again. One pandemic for a career is enough.”

Steinour, like most bankers, said he believes the additional $310 billion of funds will run out quickly.

“It won’t be enough,” he said. “There’s a clear need. I agree with that.”

Jon Prior and Paul Davis contributed to this report.

CONSUMER LENDING

Plenty of takers for offers to skip credit card, student loan payments

By Kevin Wack
April 23, 2020

Discover Financial Services and Sallie Mae are both reporting a surge in borrowers seeking payment relief, signaling the start of a new era in which U.S. consumer lenders will have to focus heavily on minimizing their credit losses.

By last week, a total of 454,000 Discover customers had enrolled in a newly established program that allows them to skip up to two monthly payments. The enrolled balances represent about 4% of the company’s total loans, a figure that is expected to keep rising as job losses mount amid the coronavirus crisis.

At Sallie Mae, the forbearance rate for private student loans rose from 3.8% in the first quarter of 2019 to 6.2% on March 31. Three weeks later, it had spiked to 11.8%, the company disclosed Thursday.

Discover, based in Riverwoods, Ill., is a credit card lender that also offers personal loans and private student loans. Newark, Del.-based Sallie Mae is primarily a student lender.

Executives at both companies said Thursday that the forbearance programs they now have in place are similar to what they have offered in the past to customers affected by natural disasters.

Discover CEO Roger Hochschild argued that the vast job losses since March — 4.4 million additional unemployment claims were filed last week, the U.S. government reported Thursday — are more consistent with the aftermath of a natural disaster than a traditional recession.

Under the new program that Discover is offering to customers affected by the virus, those who ask for relief get an automatic payment deferral. If they call again, they can get a second deferral. After two monthly deferrals, customers who miss a payment will be classified as delinquent.

“The idea behind these programs is to bridge people over a shorter period of financial stress,” Hochschild said in an interview.

It remains to be seen whether a program designed for short-term economic hardship will be well suited for the downturn that

started last month. Economists generally believe that the length and severity of the contraction will depend heavily on how quickly the virus can be contained.

Discover has modeled a scenario in which the U.S. unemployment rate peaks at 9%, declines to around 7% by the end of this year, and then recovers slowly through 2022.

But Hochschild acknowledged that economic projections right now have a high degree of uncertainty. “My guess is there will be lots of ups and downs in forecasts between now and next quarter," he said.

Discover, which also offers loan modifications to customers who need payment relief over an extended period of time, reported that the highest weekly enrollment in its credit card forbearance program came during the week ending April 5. Two weeks later, new enrolled balances were down by 45%.

Some of the decline in April could be related to the recent arrival of government stimulus funds, Chief Financial Officer John Greene noted Thursday during the company's quarterly earnings call.

The $113 billion-asset card issuer also released data Thursday about how U.S. consumer spending patterns have changed during the pandemic. During the first 19 days of April, Discover cardholders spent 16% more on groceries than they did during the same period a year earlier.

But spending at both gas stations and restaurants fell by 60%. And travel spending — a category that includes purchases from hotels, airlines and car rental companies — declined by a whopping 99%. Discover withdrew its financial guidance for 2020, as did Sallie Mae.

Under Sallie's forbearance policy, customers who ask for relief get a three-month reprieve from making payments.

Sallie Mae executives noted that less than 2% of the company's loans that are currently in forbearance were delinquent for more than 90 days at any time during the last year.

"These are responsible and reliable customers who will be willing and able to resume their payments when the economy normalizes," Chief Financial Officer Steven McGarry said during the company's quarterly earnings call this week.

One issue that could affect loan originations this year at Sallie Mae — and to a lesser degree at Discover — is whether in-person college classes resume at the start of the 2020-21 academic year. Cal State Fullerton, which has around 40,000 students, announced this week that it is assuming it will operate virtually in the fall.

Sallie Mae CEO Jonathan Witter acknowledged the risks but said he is encouraged by the emphasis that President Trump's plan for reopening America places on education. "At this time, we remain optimistic that education will broadly resume in the fall," he said.

CREDIT CARDS

Credit cards start cutting limits for people facing tough times

By Bloomberg News
April 23, 2020

Major U.S. credit card issuers are starting to lower customer spending limits as the coronavirus pandemic leaves millions of Americans jobless and struggling to keep up on loans.

Discover Financial Services just became the largest lender yet to acknowledge it's begun reining in lines of credit. In a regulatory filing late Wednesday, the firm said it's also easing off efforts to sign up new customers and that it expects to take a hit from programs letting existing borrowers skip payments or delay the accrual of interest.

"As the number of loans enrolled in these programs increases, our financial results will be adversely impacted in the short term due to forgone interest," Discover said.

The announcement came a day after Synchrony Financial, the company behind cards for J.C. Penney, Gap and American Eagle Outfitters, said it will try to stem losses by closely managing customers' accounts. In a conference call with analysts Tuesday, Chief Financial Officer Brian Wenzel said the firm is using its own vast trove of data, as well as information from credit bureaus, to "dynamically reevaluate a customer's creditworthiness." That means some may be allowed to spend more, but others less.

The defensive moves are a pivot for both companies, which more often give updates on marketing campaigns and their progress in building up interest-bearing balances. Lowering credit limits during a period of economic uncertainty can inflict lasting damage to client relationships.

In the 2008 financial crisis, banks battered by losses on mortgages ended up frustrating legions of customers by slashing spending limits, sometimes even for creditworthy borrowers. Many cardholders complained that the drop in available credit also lowered their credit scores.

This time, banks are heading into the crisis with stronger balance sheets, and they quickly reacted to the downturn by rolling out payment-deferral programs, hoping that consumers can catch up once the pandemic subsides.

Discover has enrolled almost a half-million accounts — representing $3.6 billion in balances — into its "skip-a-payment" programs. But on Wednesday, it said the impact of COVID-19 on the lending environment might linger long after the outbreak subsides.

"Due to the nature and novelty of the crisis, our credit and economic models may not be able to adequately predict or forecast credit losses," the company warned. "The pace of recovery is uncertain and unpredictable."

CORONAVIRUS

American Express prepared for a downturn — but not like this

By David Heun
April 24, 2020

In planning for an economic downturn, American Express last year studied a few different scenarios on which it could continue to generate revenue and adjust expenses accordingly.

But none of those scenarios forecast a 95% drop in travel and entertainment spending on Amex cards. And that was just one of the blows delivered by the economic paralysis the coronavirus would inflict globally.

After two strong months to start 2020, Amex, like most other businesses, saw its revenue and merchant network crash during stay-at-home mandates and mounting unemployment in the U.S. and Europe. Amex reported first-quarter net income of $367 million, compared with $1.6 billion a year earlier.

"We're now in a different world," Stephen Squeri, the chairman and CEO of American Express, said during Friday's earnings call. In light of the dramatic impact on business, Squeri said the company intends to move forward in preparing for the post-pandemic opportunities.

With the coronavirus paralyzing business across the globe, Amex is continuing to stress that small-business owners are accepting the cards and younger consumers find value in Amex rewards. If these two audiences stand by Amex, it will keep the revenue ship steady.

Next month, Amex will continue planned refreshes on a number of its card products, Squeri said. "We'll see enhancements to cards, not air or hotel related, to provide more utility to the cards in general." Amex will concentrate on value propositions that reflect the current environment, which may mean providing points toward Uber benefits, future travel or Wi-Fi services.

"Our ability to add other values and credits in a couple of months will serve us well," Squeri said. "We want to continue to maintain the price value that we strive to have with these cards."

In addition, Amex's focus on corporate B2B payments is helping the company offset the current and inevitable long-term decline in travel and entertainment spending, said Squeri, who noted that airlines are predicting the possibility of a three-year downturn in travel because of the pandemic.

Still, it will be important for Amex to monitor how domestic and international travel will rebound in the coming year. Some markets, like China, have started air travel again, but it is far more likely that domestic travel in the U.S. will rebound more quickly than cross-border travel.

"All places in the U.S. have been hit" by travel stoppage, said Jeffrey Campbell, Amex's chief financial officer. "It is remarkably similar globally."

The card company will cut $3 billion from its budgetary plan, much of it in operating costs, taking out expenses not needed at this time to support customers, as well as halting new hires, Campbell added.

For the time being, Amex will monitor expenses while taking the approach that it does not want to diminish or damage its digital or sales channels.

"The volume declines were dramatic in March," Campbell said.

Travel and entertainment volume, which was roughly 30% of proprietary volume in 2019 for Amex, is down almost 95%, Campbell said. Some online commerce and grocery spend have been stronger and helped offset those losses. Still, proprietary volume growth was down 45%, though this shift has stabilized in April.

"It is remarkable how much the world has changed in the last two months alone," Campbell said. "At the end of the first quarter, 70% of our outstanding loan balances were with U.S. consumers, 10% were with international consumers and the remaining 20% were with small businesses, almost all in the U.S."

When spending volumes "move dramatically," so do the balances, Campbell said. With only one month of spend decline, the charged receivables were down 21% compared with the prior year and down $13 billion below the prior quarter, he added.

This particular economic crisis presents a troubling aspect that did not occur in other slowdowns throughout American history. Most small businesses had to completely shut down, Campbell noted, making it difficult to predict what will happen once the virus pandemic has subsided.

First-quarter consolidated total revenue, net of interest expense, was $10.3 billion, down 1% from $10.4 billion a year earlier. The quarter reflected softness in spending volumes beginning in the last few days of February that significantly accelerated in March as a result of COVID-19 impacts. The overall revenue figures were partially offset by strong overall performance in January and February.

Global merchant and network services delivered first-quarter net income of $417 million, compared with $571 million a year earlier. Total revenue, net of interest expense, was $1.4 billion, down 10% from $1.5 billion a year earlier. The decrease indicated how far card member spending dropped once coronavirus took over the economic landscape.

In the short term, Amex is focusing on taking care of its employees. Squeri noted that the company has had no layoffs of its 64,000 employees since the crisis took hold and forced work-at-home arrangements, and that it was paying salaries without using paid leave benefits.

Consumer and small-business cardholders have been offered various short- and long-term financial assistance programs, and the card brand has added new services and rewards to card products and programs.

In addition, Amex launched Stand for Small in the U.S., a program in which more than 40 companies have come together to back small businesses through various offers, complimentary services and corporate assistance programs to help manage the crisis.

"For our merchants, we have extended the amount of time they have to respond to card member disputes, and we increased contactless transaction thresholds to reduce physical contact at the point of sale in 28 countries," Squeri said.

"Our intent is to come out of this very strong, as we did in 2009 and after the internet bubble" in the 1990s, Squeri said.

The uncertainty will not clear up until it is known when and how strongly spending will rebound as the global economy recovers, and how long widespread unemployment and small-business shutdowns last beyond the pandemic, Squeri said.

FHA

'We got out early and quickly': FHA chief details coronavirus response

By Hannah Lang
April 23, 2020

WASHINGTON — Like other agencies, the Federal Housing Administration has focused on ways to provide homeowners struggling under the weight of the coronavirus pandemic some relief. But as an insurer, the FHA is also mindful of the downside risk.

To enable borrowers to skip payments without scaring off originators, the housing agency is considering how to provide backing for new mortgages in which the homeowner might be in default before the loan is sold to investors.

The FHA is "looking at various options" to address that issue, Commissioner Brian Montgomery said in an interview.

But at the same time Montgomery would not rule out measures to mitigate potential risk to the FHA's insurance fund, including raising premiums.

"We want to make sure that our cash [inflows] exceed our cash outflows, so again, we're looking at a lot of different things, and premiums being one of them, but there are other things that we're considering as well," Montgomery said.

Montgomery, who is also serving as acting deputy secretary of Housing and Urban Development, is not a stranger to managing a crisis. He was the FHA commissioner under President George W. Bush, overseeing the agency in the midst of the 2008 housing crash. He also worked at the White House during the Sept. 11 attacks and was Bush's point of contact for the 2003 Columbia space shuttle disaster.

"This crisis, like others, has put an exclamation point on why the FHA is so vital and so critical during both good times and less than good times, like we're seeing now with the coronavirus," Montgomery said.

The FHA and HUD imposed a moratorium on foreclosures and evictions for 60 days in March, and have rolled out payment relief efforts for borrowers that include a plan to allow borrowers to defer mortgage payments for up to a year.

Ginnie Mae — an agency within HUD — also launched a pass-through assistance program in March that allows Ginnie to advance the payments to investors that can't be met by mortgage servicers.

"I think we got out early and quickly, which provided a little bit of calming effect for a lot of borrowers, and we'll continue to do that as we need to," said Montgomery.

The FHA is considering whether it should follow in the footsteps of the Federal Housing Finance Agency and insure loans in forbearance.

The FHFA announced Wednesday that Fannie Mae and Freddie Mac would begin purchasing loans in forbearance in order to ease origination pressure as the coronavirus has forced lenders to tighten standards.

"I expect we'll probably have something next week that will help address some of that issue relative to borrowers who have closed but haven't been securitized yet and go into forbearance," Montgomery said.

The Mortgage Bankers Association reported Monday that loans in forbearance that are backed by the FHA, Department of Veterans Affairs or Department of Agriculture grew by 5.89% compared with the prior week. By contrast, loans in forbearance owned by depository institutions grew by 3.53%.

FHFA Director Mark Calabria, the chief regulator of Fannie and Freddie, predicted in an April 1 interview that there would be more visible stress in the FHA and Ginnie Mae segments of the market, and said he considered many FHA borrowers vulnerable.

"With the credit quality of their borrowers, they're going to be the first canary in the coal mine, if you will, in terms of what the broader implications are going to be," Calabria told CNBC.

But Montgomery said he isn't too concerned yet about the effect of the COVID-19 pandemic on FHA's borrowers, adding that his agency has been the "hallmark" of younger, first-time and minority homebuyers.

"We've had borrowers who've always—if you do a comparison to the conventional—are younger again, and just don't have the credit quality of those served by" Fannie and Freddie, he said. "That's the way it's been for a long time."

Still, the FHA has made some changes during Montgomery's tenure to protect its mutual mortgage insurance fund from losses. Before the pandemic, the agency revised a scorecard used by originators so that borrowers with "multiple risk factors" must be manually — instead of automatically — underwitten. And thanks to a strong housing market preceding the current downturn, the FHA had been able to amp up its reserves.

The FHA's 2019 annual report to Congress showed that the MMI fund's capital reserve ratio was 4.84% during fiscal year 2019, marking a high not seen since 2007 and representing a substantial increase from 2.76% the previous year. The MMI fund is required by law to maintain at least a 2% capital reserve ratio.

"We all want this to end sooner rather than later," Montgomery said of the pandemic crisis, "but I think we've got sufficient capital reserves to weather a pretty deep storm if we have to."

But the FHA is still examining other steps it might take to mitigate risk, including looking at whether or not it should raise premiums, he said.

"We always look at our premium structure relative to the risk," Montgomery said.

Montgomery also said there are "some things around the edges" that the FHA is asking Congress to consider in a subsequent stimulus package, but declined to say what that might include.

"We have a list of things — nothing major at this point — that we might be looking to get a little more flexibility with, again, just not knowing how long and you know, how deep and how wide this pandemic may go," he said.

The coronavirus crisis does complicate some of the agenda items that the FHA had planned on working toward, Montgomery said, most notably housing finance reform.

HUD submitted a report on housing finance reform to the White House in September outlining how it envisioned its role in a future system in tandem with Fannie Mae and Freddie Mac. The suggestions included establishing the FHA as an autonomous agency within HUD and technological updates to the agency.

"Housing finance reform … is obviously going to hit the pause button … somewhat during this time because we're focused on the obvious crisis before us and how that impacts borrowers," Montgomery said.

That September report also recommended that the FHA refocus its core mission on its historic role of serving low- and moderate-income borrowers. Many observers believe that core mission has been lost since the 2008 financial crisis.

"I could see firsthand how the rise of the subprime market back then was really at the expense of what are FHA's traditional borrowers," Montgomery said.

FHA stepped in during the financial crisis and expanded its loan book considerably after Fannie and Freddie entered conservatorship in 2008 and shrank their market share. Although the agency is not expected to repeat that growth this time around, Montgomery said it would do whatever it can to play a countercyclical role amidst the economic uncertainty.

"We're here to make sure that in good times and bad people can buy a home, refinance, take out a reverse mortgage," he said. "We're not chasing any sales goals or volume here."

If the private market can't serve low- to moderate-income borrowers, "we're here to make sure that we can do what we need to do," he continued. "And sometimes that means our volume grows and sometimes it means it contracts."

PAYCHECK PROTECTION PROGRAM

House overwhelmingly passes aid bill

By Bloomberg News
April 23, 2020

The House overwhelmingly passed and sent to President Trump a $484 billion coronavirus aid package, even as members are already at odds over the next phase of rescue legislation.

Thursday's bipartisan 388-5 approval was delivered by lawmakers wearing masks and entering the House chamber under strict health precautions. Several members lamented people who've died from or are critically ill with the virus, including one lawmaker's sister. Yet the day was also marked by partisan sniping.

Trump said at a White House briefing he is likely to sign the bill Thursday night. The measure would replenish funding to the Paycheck Protection Program for small businesses and provide other spending for hospitals and virus testing. It's the fourth coronavirus-related spending measure since early March, at a total cost of almost $3 trillion.

"This is really a very, very sad day," said Speaker Nancy Pelosi, giving a less-than-triumphant sendoff to the bill on a day when government figures showed about 4.4 million additional workers applied for unemployment benefits last week. "Our nation faces a deadly virus, a battered economy" and hundreds of thousands of ill people. "Some died, and millions out of work," she said.

The House also voted to create a special subcommittee to oversee the spending of coronavirus relief funds.

The House had not convened as a group since March 27. The floor action was carried out with carefully choreographed movement and spacing of lawmakers to guard against spreading any infection. Groups of 60 members entered the chamber in alphabetical order to vote, then exited on the opposite side.

Masked lawmakers

Many members took the advice of Congress' attending physician to wear masks. Between the two votes, the House took a short break so the chamber could be disinfected.

Four Republicans voted against the bill — House Freedom Caucus Chairman Andy Biggs of Arizona, Ken Buck of Colorado, Jody Hice of Georgia and Thomas Massie of Kentucky. Alexandria Ocasio-Cortez of New York was the lone Democrat to oppose it. Justin Amash, an independent from Michigan, voted "present."

One of the most poignant moments came when Financial Services Chairwoman Maxine Waters of California told colleagues her own sister was dying from a condition that's claimed close to 50,000 American lives so far.

"I'm going to take a moment to dedicate this legislation to my dear sister, who is dying in a hospital in St. Louis, Missouri, right now, infected by coronavirus," said Waters. Expressions of sympathy came from Democrats and Republicans.

Sen. Elizabeth Warren, a Massachusetts Democrat, said on Twitter that her brother died of coronavirus on Tuesday.

Representative Ben McAdams, a Utah Democrat who tested positive for the virus and missed a House session in March, was back in Washington for the vote.

Sniping over negotiations

Much of Thursday's debate centered on GOP claims that Pelosi and Democrats needlessly delayed agreement on the bill, and Democratic arguments that Senate Republicans under Majority Leader Mitch McConnell refused for too long to add items that were needed, only to agree at the end.

The final bill includes $320 billion to make new loans under the Paycheck Protection Program, which provides forgivable loans to small business that keep employees on the payroll for eight weeks. It sets aside $30 billion of the loans for banks and credit unions with $10 billion to $50 billion in assets, and another $30 billion for even smaller institutions.

The measure includes $60 billion in loans and grants under a separate Economic Injury Disaster Loan program, and makes farms and ranches eligible for the loans. Also, there is $75 billion for hospitals, with a significant portion aimed at those in rural areas, and $25 billion for virus testing.

The testing funds include $18 billion for states, localities, territories, and tribes to conduct COVID-19 tests, $1 billion for the Centers for Disease Control and Prevention, and $1.8 billion for the National Institutes of Health. As much as $1 billion would cover costs of testing for the uninsured.

'Strong' support

Rep. Kevin Brady of Texas, the top Ways and Means Republican, said the plan "will have an immediate impact. And it deserves strong, bipartisan support."

But Brady also accused Pelosi of delaying agreement on the final version while the economy faltered and more jobs were lost.

Pelosi responded that Democrats ensured the plan includes new aid for hospitals and virus testing, as well as stricter rules to send small-business aid to those with less access to bank loans.

Minority Leader Kevin McCarthy retorted to Pelosi's explanation: "Listening to it, the only thing I could think was what Shakespeare would say, The lady doth protest too much, methink."

These tensions are already building as lawmakers begin eyeing the next stimulus package. Pelosi has said a major package of aid for state and local governments must be in that bill to help them pay for first responders, police, health workers and others.

McConnell expressed strong doubts about such aid Wednesday, suggesting that states that provide generous benefits to their workers should be allowed to discharge their debts through bankruptcy.

'The Grim Reaper'

Democratic Rep. Tom Suozzi of New York took a shot at McConnell during Thursday's floor debate: "The Grim Reaper is telling my state and others to drop dead. Well, I have a message for him: We're going to fight you."

McConnell occasionally has proudly called himself "the Grim Reaper" because so many Democratic House bills die in the Senate.

Congress isn't scheduled to return to Washington until May 4, though negotiations and drafting of the next bill can take place without most lawmakers in town. A bipartisan House group also will look at proposals for proxy or remote voting.

In another emotional moment on the House floor Thursday, Rep. Rashida Tlaib, a Michigan Democrat, talked about the death from coronavirus of the 5-year-old daughter of a firefighter and a police officer in her district.

"It is immoral for us to walk way and take a month off when people and our neighbors are dying and losing loved ones," she said.

PAYCHECK PROTECTION PROGRAM

Federal Home Loan banks to offer more liquidity for PPP lenders

By Hannah Lang

April 23, 2020

WASHINGTON — The Federal Home Loan banks will begin accepting loans made through the Small Business Administration's Paycheck Protection Program as collateral when making advances to their members, the Federal Housing Finance Agency said Thursday.

The move aims to provide additional liquidity for small and community banks to "support the small businesses in their communities," the FHFA said in a statement. It is designed to serve smaller members who don't have access to the Federal Reserve's Paycheck Protection Program Liquidity Facility.

The PPP launched on April 3 with $349 billion in funding designed to help employees of small businesses harmed by the coronavirus outbreak. The funds go to private commercial banks that in turn make loans available to businesses.

Although the SBA stopped taking applications 13 days later, when the funding ran out, the Senate recently passed a bill to authorize an additional $310 billion for the program. The House is expected to vote on the measure this week.

The Home Loan banks will be able to accept loans made under the SBA program as collateral, as long as the loans are in compliance with certain safety and soundness requirements outlined by the FHFA.

The FHFA is mandating that Home Loan Bank System members have a Camels rating of 3 or better in order to pledge PPP loans as collateral. The agency has limited the amount of loans that FHLB members can pledge to no more than $5 billion.

On Wednesday, the FHFA also announced that Fannie Mae and Freddie Mac would begin purchasing mortgages in forbearance in an effort to keep the mortgage market running smoothly as the coronavirus has caused lenders to tighten standards.

BANKTHINK

Revive the Treasury's Small Business Lending Fund

By Jason Tepperman

April 22, 2020

The economic shock waves of the coronavirus pandemic continue to decimate small businesses across the nation, but ready access to capital can help limit the fallout.

There is growing fear that banks will shelter their capital in place, pulling back on new lending. While the Paycheck Protection Program has provided a short-term bridge, more sustainable policies will be required. One proven approach worth pursuing: a renewal of the Treasury Department's Small Business Lending Fund.

In the aftermath of the 2008 financial crisis, the SBLF program sought to forge a unique public-private partnership between the government and community banks. These banks were then, and remain today, the largest lenders to small businesses, fostering deep relationships within their local markets.

The SBLF program provided hundreds of these institutions with new capital to make small business loans, coupled with a compelling economic incentive to take action — the more a bank increased its small-business lending, the less it would pay for the capital.

This proved to be a powerful combination. In the years that followed, SBLF participants grew their small-business loan portfolios by nearly $19 billion, representing a median increase of 92% over their initial levels and more than 77,000 new loans to small businesses.

By contrast, similar banks that did not participate increased lending by a median of just 26% in the same period. The resulting benefits were widespread across businesses — nearly 80% of the small-business loans made by SBLF participants were for amounts of $250,000 or less.

Moreover, Treasury showed itself to be a capable investor in these institutions. Of the $4 billion invested through the program, just 1% was written down. The government earned millions of dollars in dividends and interest payments. And while initial budget projections suggested the program would cost over $1 billion, recent figures indicate that taxpayers will in fact earn a profit.

A reauthorized SBLF program would be even more relevant today. During the program's initial funding round in 2011, some banks perceived that the nascent recovery's slow-but-steady pace would constrain their potential loan growth and opted not to join.

Other institutions lacked the baseline capital and portfolio health that were a prerequisite to participate. These situations have since reversed.

Most institutions today are in solid financial condition and would be well qualified to participate. Similarly, while the timeline for the coronavirus crisis is yet unknown, many lenders would agree that demand for credit will increase substantially as businesses seek to reboot their operations.

More immediately, access to capital through SBLF funding would help bolster banks' confidence to continue extending credit as this crisis unfolds. With bank equity valuations down 40% this year, fortifying community bank balance sheets with new SBLF capital would offer a strong inoculation against fears of dilutive capital raises.

Beyond its partnership with community

banks, an often-overlooked component of the SBLF program was its $100 million investment in over 50 high-impact community development loan funds.

These nonprofit organizations provide credit to small firms and microbusinesses that are generally unable to secure bank financing. It is borrowers like these that have been hit hardest by the current crisis. Demand for capital from community development funds is now reaching a crescendo, even as their resources are increasingly stretched.

In public forums, the SBLF program was sometimes conflated with the Troubled Asset Relief Program because both efforts provided capital to banks, although the two initiatives were separate and the similarities were largely superficial.

The TARP bank capital program focused principally on capital injections to support banks' existing operations, and most banks returned the funding as quickly as they could. The SBLF program, by contrast, sought to partner with banks that were in sound condition but needed additional capital to finance a growing loan portfolio.

It was an effective approach — more than 90% of SBLF participants grew their small-business loan books, and fully 85% recorded increases of 10% or more. Participants also retained their SBLF capital for more than four years on average, evidence of the program's continuing value.

While some economic recovery programs will take considerable time to implement, a second round of SBLF capital could be fielded in relatively short order.

The program's infrastructure was built to be readily deployable, drawing upon turnkey departmental capabilities and shared services. These mechanisms functioned well — in an independent survey, 89% of SBLF participants reported they were satisfied with the Treasury's administration of the program.

There are several paths to a reauthorization of SBLF funding. The most direct would be a reopening of the investment window specified in the Small Business Jobs Act of 2010, the bill that created the program.

It may also be possible to employ a portion of the $454 billion in economic stabilization funding authorized by the CARES Act to the same end, absent additional legislation.

To be sure, some adjustments would be warranted in any subsequent funding round. Banks organized as Subchapter S corporations and mutual organizations should be permitted to include new SBLF funding in their Tier 1 capital, thereby facilitating their full participation in the program.

Regulators would be asked to offer limited exemptions from more recent Basel III directives that could impede the SBLF's capital structure. Also worthwhile would be a recalibration of the program's incentive thresholds and pricing for the present environment.

Small businesses have been pressed by the coronavirus crisis like no other. Access to capital has rarely been so crucial for these firms as it is today. The resulting need for time-tested policies that can deliver credit quickly and at reasonable cost is immense and escalating. The SBLF program worked well the first time. It would be even more effective today.

Jason Tepperman served as the director of the U.S. Treasury Department's Small Business Lending Fund from 2010 to 2014. He presently is the managing director of PLC Fund Advisors LLC, a specialized small business lender. The views expressed in this article are his own.

SERVICING

State attorneys general urge FHFA, HUD to expand mortgage payment help

By Kate Berry
April 23, 2020

A bipartisan coalition of state attorneys general is recommending that homeowners who skip mortgage payments because of the coronavirus pandemic be allowed to delay those payments until the end of the loan's term.

The attorneys general sent letters Thursday to Federal Housing Finance Agency Director Mark Calabria and Department of Housing and Urban Development Secretary Ben Carson urging them to revise current forbearance programs to help borrowers remain in their homes.

Currently, once the forbearance period ends, borrowers are being asked either to repay the missed payments in a lump sum or enter into a more permanent loss mitigation agreement. Although Fannie Mae and Freddie Mac have announced a deferral program allowing borrowers to wait until the end of a term to make skipped payments, that program may not get off the ground until next year.

Borrowers currently are unlikely to afford the lump sum, and servicers may already be too overwhelmed to handle loss mitigation requests.

"While forbearance plans are a critical first response, we have significant concerns about the mortgage servicing industry's ability to implement the forbearance plans as they are currently contemplated and about what will happen to homeowners after the forbearance period ends," the letters said.

The letters — signed by 25 Democrats and nine Republicans — give estimates that 25%-35% of homeowners may need some form of assistance. The attorneys general offered three suggestions to ensure that homeowners "are given a fair opportunity" to retain their homes and not be pushed into foreclosure.

First, they want the FHFA and HUD to revise their forbearance programs so that the entire amount of skipped payments are placed at the end of the loan's term.

Fannie Mae and Freddie Mac recently announced a payment deferral program that places payments skipped through forbearance on the end of the loan. But servicers are not required to implement it until January 2021. Moreover, the program has further restrictions. Borrowers are only eligible for deferment if they are no more than 60 days delinquent, have had their loan for at least a year and have not received a modification.

"These restrictive eligibility requirements, along with the delayed effective date mean that most borrowers who receive a forbearance are unlikely to receive a Payment Deferral," the AGs said in the four-page letter.

The AGs also argue that the mortgage servicing industry is ill equipped to deal with millions of borrowers who need relief at the same time. They point out that servicers largely failed to provide borrowers with relief during the financial crisis in 2007 and 2008, when the number of homeowners needing loss mitigation was stretched out over many years.

"Based on past experiences with both the last foreclosure crisis and recent natural disasters, we fear that both the mortgage servicing industry and homeowners will become overwhelmed if changes are not made," the letter said.

Second, the attorneys general suggest that the FHFA waive a requirement that a borrower be current or less than 31 days delinquent at the time of the COVID-19 national emergency declaration to be eligible for disaster-related modifications.

They want HUD to revise the eligibility criteria of modification options to ensure that its programs have the same reach as the forbearance program mandated by Congress in the coronavirus relief bill.

FEDERAL RESERVE

Fed to release monthly details on coronavirus lending

By Neil Haggerty

April 23, 2020

WASHINGTON — The Federal Reserve will release monthly details about the activities of its lending facilities that were deployed to support banks and other businesses dealing with the economic effects of the coronavirus pandemic.

The central bank, which has been able to expand liquidity efforts thanks to the $2 trillion coronavirus rescue package passed by Congress, said Thursday that it will post details about the participants in its lending facilities. The information will include how much participants borrow and their interest rates. The details will be made publicly available on the Fed's website "at least every 30 days."

"The Federal Reserve is committed to transparency and accountability by providing the public and Congress detailed information about our actions to support the economy during this difficult time," Fed Chair Jerome Powell said in a press release.

The announcement comes as the Trump administration and regulators have been pressured to be transparent in their use of funds authorized by the Coronavirus Aid, Relief, and Economic Security Act, which became law last month. Congress also created a congressional commission through the CARES Act to oversee the Fed and Treasury Department's activities as they relate to the coronavirus.

The Fed has rolled out a number of facilities in response to the pandemic, including the Main Street Lending Program, Municipal Liquidity Facility and Paycheck Protection Program Liquidity Facility. The PPP facility provides funding to banks offering loans to struggling small businesses. ❑