AMERICAN BANKER®
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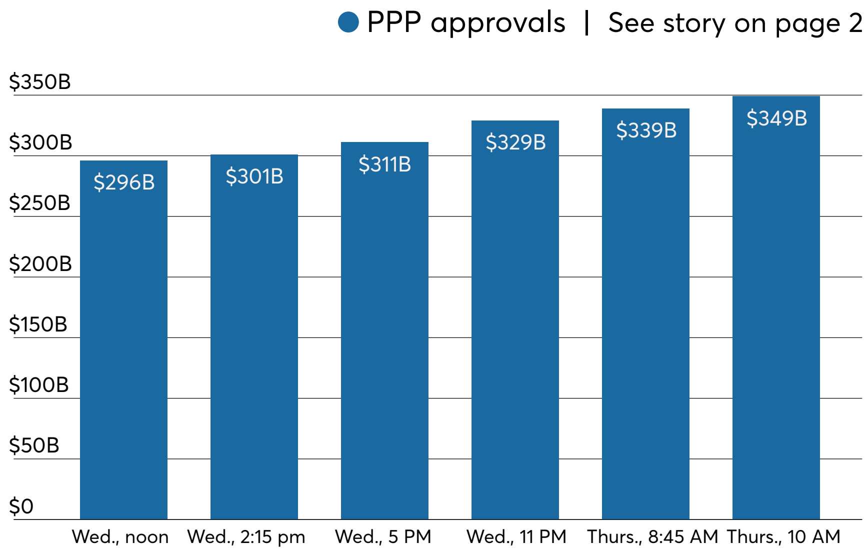
# Gone

The Paycheck Protection Program has used up its initial authorization




Source: SBA

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LAW AND REGULATION

# Hundreds of thousands of emergency small-business loan applications in limbo

**By John Reosti**
April 16, 2020

With the Paycheck Protection Program's initial funds depleted, lenders are stepping up efforts to press for more money.

The Small Business Administration announced Thursday morning that it had committed all of the program's $349 billion, less than two weeks after the effort began. Lawmakers are debating a second round of funding that would add $250 billion to the program.

The SBA and the Treasury Department, the program's administrators, had said they would stop approving applications when the funding was expended.

That leaves more than 700,000 applications in limbo, said Richard Hunt, president and CEO of the Consumer Bankers Association.

"I believe we could need upward of $1 trillion to satisfy all the demand, but we need at least $250 billion as soon as possible," Hunt said during a Wednesday conference call. "If Congress would just pass what we call a clean bill, that would be great."

James Ballentine, executive director of congressional relations and public affairs at the American Bankers Association, expressed hope that lawmakers would reach an agreement on a new round of funding as early as Thursday.

"Any lapse would be detrimental to so many small businesses," Ballentine said.

The Federal Reserve announced just hours before the funding ran out that its liquidity facility for the program was fully operational and available.

The CBA has been urging the government to allow lenders to keep uploading applications into the SBA's E-Tran system even if there is a temporary shutdown.

"Entering PPP loans into the system would ensure small businesses are able to receive immediate funds, without the continued backlog, when Congress approves additional funding," Hunt wrote in a Wednesday letter to the agencies.

BBVA USA in Birmingham, Ala., plans to continue processing applications even if funds lapse, said Elizabeth Dobers, director of business banking at the $92.7 billion-asset bank.

"We'll put the pedal to the metal and keep going," Dobers said on the CBA's call.

Conceived by a group of senators led by Marco Rubio, R-Fla., and Susan Collins, R-Maine, the program was included in the $2 trillion CARES Act stimulus program Congress passed and President Trump signed into law on March 27.

The Paycheck Protection Program, which began on April 3, is intended as a lifeline for small businesses. The effort, managed through the SBA's 7(a) program, offers loans of up to $10 million to businesses with 500 or fewer employees impacted by the coronavirus crisis.

Paycheck Protection loans are 100% guaranteed by the government and can be forgiven if businesses spend the proceeds on payroll and basic operating expenses.

Before the coronavirus crisis hit, the highest annual loan volume guaranteed under 7(a) was $25.4 billion in fiscal 2017.

"SBA has processed more than 14 years' worth of loans in less than 14 days," Treasury Secretary Steven Mnuchin and SBA Administrator Jovita Carranza said in a joint statement issued on Wednesday. "The high demand we have seen underscores the need for hardworking Americans to have access to relief as soon as possible."

"Given the success of PPP in getting money into the hands of small businesses quickly, we still believe that the best option is for Congress to appropriate additional federal funds as soon as possible," Rob Nichols, the ABA's president and CEO, said in a Wednesday statement.

With most of the country on lockdown and entire industries such as hospitality, dining and retail shut down, government officials rushed to put the program in motion, even though crucial details including the interest rate, the language of the promissory note and guidance on the use of electronic signatures hadn't been fully worked out.

Initial guidance for the program wasn't released to lenders until April 2 — hours before the effort went live.

"We're flying the plane and building it at the same time," Dianna Seaborn, director of the SBA's Office of Financial Assistance, said during a conference call with lenders earlier this month. "Things change hourly."

Despite an unsettled start, demand has been enormous, forcing bankers to choose between proceeding without definitive guidance on key questions or abandoning hundreds of clients fighting for survival.

The $3 billion-asset Canandaigua National in New York "very deliberately said this is the

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spirit of the program. Let's go ahead and get this money into the community ASAP," CEO Frank Hamlin said. "We'll fight it out later to the extent people don't back our play."

Canandaigua bankers have "been working around the clock," Hamlin added. "We've been taking this very seriously."

Many community banks set up lending assembly lines to get loans out the door, stepping up efforts as the program neared its cap.

Washington Trust Bank in Spokane handled more than 3,400 applications over the program's first 10 days, eclipsing its total volume for all of 2019, said Jack Heath, the $7.2 billion-asset company's president and chief operating officer. Washington Trust has 50 "inputters" funneling loans into E-Tran, Heath said.

"We've gone to a 24/7 model," Heath said. "We've got it up to a pretty good cadence."

Easter Sunday was Washington Trust's first day off since the program's launch. Even then, some employees had to be dissuaded from working, Heath said

"It's nice to see the institution pulling together," he added.

Canandaigua also threw out its traditional schedule, Hamlin said.

"We've had many evenings where people are working late, and certainly weekends," said Charles Vita, Canandaigua's chief lending officer. "We try to rotate people, so we have some shifts going on. …Everyone has really stepped up. It's a real tribute to our entire organization. I can't think of an area that hasn't been involved."

Dobers did not provide detailed statistics for BBVA USA's activity, but the company has processed up to 10 times its typical annual SBA volume since the program started.

BBVA USA is one of the country's most active 7(a) lenders. Through the first three months of the 2020 fiscal year, which began Oct. 1, the company had made 7(a) loans totaling $64 million, according to the SBA.

"We've commandeered every resource in the bank" for Paycheck Protection, Dobers said.

"Most of the banks we interact with are doing some version of shift work," said Sultan Meghji, the CEO of Neocova, a fintech based in St. Louis.

"Never before in the history of this country has a program of this magnitude been stood up in this fashion," Ballentine said.

Congressional Democrats have tied more funding to a request for money for hard-hit state and local governments and hospitals. They're also seeking to allocate some Paycheck Protection money for borrowers in disadvantaged communities.

The Independent Community Bankers of America called on lawmakers to commit at least $62.5 billion of the proposed second round of funding to banks with assets of $50 billion or less.

Hunt warned that attempts to earmark funds for certain groups or banks risked complicating the program.

"It's taken a herculean effort for SBA to process this simplified system," Hunt said. "If we start adding parameters, we'll slow down the process."

FDIC

# FDIC suspends project to modernize agency's signage

**By Brendan Pedersen**
April 16, 2020

WASHINGTON — The Federal Deposit Insurance Corp. is suspending plans to modernize its iconic signage for the digital age, the latest regulatory effort slowed by the coronavirus pandemic.

The agency issued a request for information in February seeking feedback on a process to update the FDIC logo and sign seen at bank teller stations at ATMs. The regulator said it wanted to address "significant changes in the marketplace, technological developments, and rapidly evolving consumer behaviors" in recent years.

The FDIC last month extended the RFI's deadline for public comment to April 20, but in a press release on Thursday it said the entire effort will be postponed.

"The agency remains committed to modernizing these rules at a future date to better reflect how banks and savings associations are transforming their business models to take deposits via physical branches, digital, and mobile banking channels," the FDIC said.

Since the Federal Deposit Insurance Act was signed into law in 1950, banks have been required to display the FDIC's logo physically wherever deposits are taken. But the rise of internet banking and a decline in customer use of bank branches have left the agency with questions about how to display its seal of safety in digital mediums.

TREASURY DEPARTMENT

# Banks join calls to shield stimulus checks from debt collection

**By Brendan Pedersen**
April 16, 2020

WASHINGTON — A growing chorus of voices is calling on Congress to protect the stimulus checks being sent to Americans across the nation this week from debt collection.

A consensus has emerged that the recent $2 trillion package for easing economic fallout from the coronavirus allows banks to use a consumer's piece of the stimulus to fulfill garnishment orders to pay creditors for outstanding debts.

The issue has put banks in a bind. To avoid diverting customers' stimulus money, they would need to suspend collection of overdraft fees, for example, and in many cases banks are obligated to fulfill court-required garnishment orders. Yet the industry has been widely focused on efforts to help consumers weather effects of the pandemic. Some large banks have already suspended collecting on negative checking balances to avoid garnishing stimulus checks.

And the industry is urging lawmakers

to exempt stimulus payments — typically $1,200 per individual — from garnishment, siding with consumers advocates and several members of the House and Senate.

"We believe it is imperative that Congress make it clear that these payments are treated as benefits subject to the federal exemption from garnishment," the American Bankers Association, Bank Policy Institute, Consumer Bankers Association and Financial Services Forum wrote in a joint letter to congressional leaders.

The stimulus package — known as the Coronavirus Aid, Relief, and Economic Security Act — exempted the direct relief payments from certain garnishment orders, such as debts owed to state and federal agencies. But the exemption did not cover orders to pay private creditors.

"As a result, banks are obligated to treat [stimulus checks] accordingly, which will impose a significant burden for some families facing unprecedented circumstances," the trade groups wrote. They added that the Treasury Department should make such payments available through direct deposit, which allows for the funds to be coded as exempt from garnishment.

Wells Fargo and Citigroup said this week they will not collect on negative balances for a month to ensure that customers can receive the full stimulus amount deposited into their accounts. Wells also announced that noncustomers can cash stimulus checks in their branches for no fee.

Reports about banks' ability to deduct outstanding debt from customers' stimulus money swirled in days after publication of a story in American Prospect magazine. It included audio of a Treasury official telling banks in a webinar that "nothing in the law" would legally prevent them from using stimulus funds to cover overdraft fees and other debts owed by customers.

But some analysts say that even if banks have the legal authority to do so, skimming off the top of emergency federal benefits would likely constitute a third rail for many depository institutions.

"The upside of doing it would be so, so small," said Rolland Johannsen, a senior associate at Capital Performance Group. "You're talking about what's going to be a $1,200 payment for most people. So what if someone has a $60 overdraft fee? There's very little economic upside, and the reputational downside is considerable."

The bank trade group letter joined calls by consumer advocates, including the Center for Responsible Lending and the National Consumer Law Center, that have demanded the stimulus checks be more broadly protected from garnishment.

"Everybody knows from historic experience that when debt collectors know money is coming in, like tax refunds, they come rushing in," said Lauren Saunders, associate director at the law center. "This is a chronic problem."

Nonbank debt collectors may consitute a broader threat to customers receiving their full stimulus money, analysts say. If a court has ordered someone's wages or assets to be garnished, debt collectors could have full access to stimulus funds once they have been deposited in a bank account.

"Millions of people in this country have debt garnishment orders against them," Saunders said. "Banks are caught in the middle here, and they have to comply with court orders."

Many federal benefits, such as Social Security payments and veterans benefits, have been exempt from debt collection by third parties since a 2011 rulemaking from the Treasury Department tied to the Dodd-Frank Act. But with no explicit provision in the CARES Act to provide the stimulus checks with similar protections, the Treasury Department has made no public indication that it will do so.

"Under the CARES Act, Treasury has the broad authority to issue rules around the stimulus," said Lisa Stifler, director of state policy at the Center for Responsible Lending. "They haven't done so on this, and we don't know why."

The Treasury Department did not respond to a request for comment for this story.

Johannsen said there is a difference between banks being ordered by a court to transfer funds to a third-party debt collector and their using stimulus money to cover an overdraft.

"What you have to do is separate from what banks have control over, in terms of decisions they can make about their own actions, versus what they're obligated to do as a result of legal responsibilities," he said. "Debt collectors can't just take the money out of someone's bank account unless they have a court-approved debt garnishment order. So if a bank is served that order, they don't have a choice. But what they do have a choice over, if someone has an overdue loan payment or outstanding overdraft fee, is whether or not to use the stimulus funds to offset it."

He added that banks have generally been sympathetic to consumers' financial struggles during the pandemic crisis.

"Banks need to think about what they're in control of — whether your collection group is going to stand down, be more circumspect, how you're making calls and other kinds of collection activities," Johannsen said. "Most banks have adopted an attitude of tolerance. If people are asking for extensions or leeways, in most cases I'm aware of, they're being very tolerant. But we'll see how long that can last."

Lawmakers have called on banks to publicly state that they will not seize a customer's stimulus funds for the payment of debts.

"We ask that your member banks do the right thing — for their customers, our country, and our economy — and publicly commit that they will not offset their customers' stimulus payments to pay for any fees, charges, or allegedly past due debts," wrote Sens. Elizabeth Warren, D-Mass., and Sherrod Brown, D-Ohio, the top Democrat on the Senate Banking Committee, in a letter Wednesday to six financial services trade groups.

Last week, Brown along with Sen. Josh Hawley, D-Mo., sent a letter to Treasury Secretary Steven Mnuchin urging him to take action to protect individuals' funds from private debt collectors. "If Treasury fails to take action, the CARES Act direct payments are at risk of being seized by debt collectors," they wrote. "That is not what Congress intended."

Even without explicit federal protections, several states have taken actions to either halt debt collection or protect stimulus payments from debt collectors.

In Massachusetts, the state's attorney general issued guidance on Monday telling local debt collectors that CARES Act payments were "off-limits." In Ohio, the attorney general warned collectors not to touch stimulus funds, citing existing state law that generally protects federal benefits from being garnished by debt collectors, even those not explicitly protected under federal law.

And in a letter on Monday, 25 state AGs, including from New York, California, Illinois, Ohio, New Mexico, Virginia and Minnesota, urged Treasury to take stronger action.

"During this public health and economic crisis, the States do not believe that the billions of dollars appropriated by Congress to help keep hard-working Americans afloat should be subject to garnishment," the attorneys general wrote.

But advocates say an uneven patchwork of state and local action to halt debt collection will still leave many low-income Americans in the lurch.

"More than anyone else, the people facing debt garnishment are likely to have lost their jobs, been furloughed, or had hours reduced and are struggling to make ends meet right now," said the CRL's Stifler. "When these funds meant to help them are taken by creditors or collectors putting themselves at the front of the line, that is going to prevent folks from being able to keep going."

HMDA

# CFPB finalizes HMDA rule that gives reg relief to banks

**By Kate Berry**

April 16, 2020

The Consumer Financial Protection Bureau issued a final rule that reduces the number of financial institutions reporting Home Mortgage Disclosure Act data that can be used to root out discrimination in home lending.

The amendment to Regulation C, released on Thursday and effective July 1, will increase the permanent loan-volume coverage threshold for collecting and reporting data on closed-end mortgages from 25 to 100.

The CFPB first proposed the current HMDA changes in May 2019. The move is part of CFPB Director Kathy Kraninger's efforts to provide regulatory relief to small lenders by significantly raising loan thresholds for collecting and reporting HMDA data.

The final rule also increases the permanent threshold for open-end lines of credit from 100 to 200.

Financial institutions currently have a reprieve from HMDA reporting after the CFPB extended a temporary threshold that required institutions with 500 open-end lines of credit to report. The permanent threshold goes into effect Jan. 1, 2022, when the temporary, two-year threshold expires, the CFPB said.

The agency sought to tie the regulatory relief to the coronavirus pandemic. In its press release, the CFPB said it recognizes "the operational challenges" confronting institutions due to COVID-19.

"The Bureau anticipates that this final rule, once effective, will reduce regulatory burden on smaller institutions to help those institutions to focus on responding to consumers in need now and in the longer term," the CFPB said in the release.

Congress enacted HMDA in 1975 to collect data that can be used to identify institutions that engage in discrimination in mortgage lending, typically by raising costs for certain borrowers. The CFPB and other prudential regulators use the data to examine and identify fair-lending violations.

The 2018 regulatory relief law had already exempted an estimated 85% of all banks from reporting expanded HMDA data points, including an exemption from disclosing all points and fees when a bank originates a home loan.

GENERAL OBLIGATION BONDS

# BofA lending to states that don't want to wait on Fed

**By Bloomberg News**

April 16, 2020

Some states aren't waiting on the Federal Reserve to help with the historic hits to their budgets. Instead, they're working with a lender that they have a much longer history with: Bank of America.

At least three — Hawaii, Massachusetts and Rhode Island — have taken steps to borrow from the bank to cover temporary cash shortfalls as the shutdown of broad swaths of the economy crimps their tax revenues.

On Wednesday, Hawaii disclosed in a regulatory filing that Bank of America would purchase $600 million in general obligation bond anticipation notes, the same type of debt that the Fed will purchase in its first-ever move into the $3.9 trillion municipal bond market. Massachusetts Treasurer Deb Goldberg is considering taking out a loan of about $1 billion from Bank of America and other banks. At the end of March, before the Fed announced its lending program, Rhode Island also entered into a $150 million note purchase agreement with Bank of America, according to a regulatory filing.

The moves come as states and cities are bracing for what may be the biggest fiscal crisis they've seen in decades, with budget shortfalls expected to outstrip those brought on by the real estate collapse that set off the last recession. Anticipating a surge in borrowing that could destabilize the municipal securities market, the Fed last week said it would extend as much as $500 billion of loans to states, Washington, D.C., and some of the most populous cities and counties.

The central bank hasn't released details about the intricacies of the program, including how much it will charge for the loans, and Citigroup Inc. has estimated it could take weeks for the program to start dispensing funds.

Municipal Market Analytics, an independent research firm, said in an April 13 report that it's seen a growing number of governments selling debt directly to banks or taking out lines of credit. It's an understandable and prudent move by states given that working with a bank is a fast way to get cash, said Matt Fabian, a partner at the firm.

"It also puts them at the front of the line of other issuers who might want to take out lines of credit later," he said.

For lenders like Bank of America, the biggest underwriter of municipal bonds, such loans will help them offset a steep drop in the pace of debt sales since the market was rattled by a record-setting sell-off as investors pulled billions from mutual funds. Even with the market rebounding, in part because of the Fed's moves, long-term bond sales this month have declined 40% from a year ago.

Goldberg, the treasurer of Massachusetts, told lawmakers that the state is in the "final stages" of securing a working capital borrowing facility with a syndicate of banks led by Bank of America. That will give the state flexibility to draw down funds as needed during a time of delayed revenues as the tax deadline is pushed back, she told lawmakers during a hearing on April 14.

Hawaii's taxable notes mature in October 2021 and yield 1.76%, according to terms included in the regulatory filing.

COMMERCIAL LENDING

# House bill would temporarily lift credit union commercial lending cap

**By Aaron Passman**
April 16, 2020

A forthcoming House bill would eliminate credit unions' member business lending cap for three years on all loans related to helping small businesses weather the coronavirus crisis.

The legislation, announced Wednesday in a letter from Reps. Brad Sherman, D-Calif., Suzanne Bonamici, D-Ore., Don Young, R-Alaska, and Brian Fitzpatrick, R-Pa., would exempt all credit union disaster-relief loans to small businesses from the MBL cap.

"Given the urgent financial needs of so many small businesses because of the COVID-19 crisis, now is the time to provide credit unions with additional flexibility to serve their business members," the representatives wrote.

The letter, which called the legislation the Access to Credit for Small Businesses Impacted by the COVID–19 Crisis Act of 2020, said others had until Thursday to sign on to be an original co-sponsor of the bill.

By law, credit unions' member business lending portfolios cannot exceed 12.25% of total assets. The proposed legislation would include any credit union commercial loans used to help businesses recover from the pandemic for a three-year period beginning March 13 of this year, according to the National Association of Federally-Insured Credit Unions. The National Credit Union Administration would also have to issue regulations ensuring safety and soundness were not adversely affected by any of those loans.

As the credit union industry has grown in the years since the Great Recession, trade groups have repeatedly pushed that the MBL cap be raised or removed entirely. Those efforts have been unsuccessful, however, in part because of strong pushback from bank groups. The cap was originally put in place as a concession to bankers after passage of the Credit Union Membership Access Act in the late 1990s.

Not surprisingly, credit union groups cheered the news.

"This legislation will go a long way toward ensuring more loans and capital reach those in need, and NAFCU stands to advocate for its passage during these uncertain economic times," Dan Berger, NAFCU's president and chief executive, said in a statement.

"This legislation would ensure that all available business credit is deployable during and after this crisis, so that small businesses can get back to business and Main Street communities can recover quickly from this unprecedented crisis," said Jim Nussle, president and CEO of the Credit Union National Association.

The American Bankers Association said it supported efforts to help financial institutions work with those affected by COVID-19 but criticized the legislation.

"[T]his proposal has nothing to do with the current crisis," a spokesman said. "Government guaranteed loans, such as crisis-specific programs like the SBA Paycheck Protection Program, do not count against the member business loan cap. We can only assume that this is an attempt by the credit union industry to quietly ease longstanding commercial lending limits using the current crisis as a cover."

However, it's unlikely that lawmakers will act immediately on any proposed legislation. Congress isn't expected back in Washington until at least early May.

CRISIS MANAGEMENT

# Fed's Kashkari says banks should raise money, halt dividends

**By Bloomberg News**
April 16, 2020

Federal Reserve Bank of Minneapolis President Neel Kashkari says that large U.S. banks should raise $200 billion from private investors and stop paying dividends so they can support the economy.

"The most patriotic thing they could do today would be to stop paying dividends and raise equity capital, to ensure that they can endure a deep economic downturn," Kashkari writes in a Financial Times op-ed.

Under severe coronavirus scenarios, large banks with assets of more than $100 billion each could together lose hundreds of billions of dollars of equity capital, stress test modeling by the Minneapolis Fed indicates.

A prolonged coronavirus crisis could put banks at risk through a trickle-down effect. As businesses struggle to pay rent, landlords wouldn't make mortgage payments, forcing banks to pay interest on their own liabilities. Doing otherwise, Kashkari warns, would trigger a default. "So they must pay their creditors while absorbing the losses out of their equity," he adds.

Kashkari, who oversaw the Troubled Asset Relief Program in the 2008-9, gave the example of U.S. taxpayers injecting about $200 billion of capital to strengthen banks back in 2008. If the current crisis "turns out less serious than we fear, banks can return the capital through buybacks and dividends once the crisis passes," he said.

Earlier this month, former Fed Chairman Ben Bernanke, who led the central bank through the financial crisis, said that while U.S. banks are in much better shape than they were back then, he saw a case for regulators to ask banks to be cautious about paying out dividends or executing share buybacks —

provided that could be done without unduly alarming investors about the financial health of the institutions.

SERVICING

# Key Democrats urge Mnuchin, Powell to rescue mortgage servicers

**By Bloomberg News**
April 16, 2020

Key Democrats in the U.S. House and Senate are calling on Treasury Secretary Steven Mnuchin and Federal Reserve Chairman Jerome Powell to provide a lifeline to mortgage servicing firms that are bracing for a wave of missed payments.

The Fed and Treasury should use powers given to them under recent stimulus measures to provide liquidity to servicers facing shortfalls, House Financial Services Chairwoman Maxine Waters and Sherrod Brown, the top Democrat on the Senate Banking Committee, said in a letter Wednesday. Steps that government-sponsored Ginnie Mae have taken may not be enough, the lawmakers wrote.

"Mortgage servicers are expected to face increased strain as millions of homeowners and renters lose jobs, are furloughed, or see reduced hours, all of which will keep them from making mortgage and rent payments, as a result of this public health crisis," the lawmakers wrote. "We must not allow the pandemic to destabilize critical markets, including our housing market."

The letter is the latest in a fight in Washington about what steps regulators should take to save nonbank mortgage servicers such as Quicken Loans, Freedom Mortgage and Mr. Cooper Group Inc. It's a boost to Wall Street lobbying efforts seeking to quell the fallout of the coronavirus crisis on the mortgage market.

Servicers collect payments from borrowers and make sure investors in trillions of dollars of government-backed bonds get paid each month. With millions of homeowners predicted to start missing payments, the industry says it needs a lifeline to head off servicer failures that could threaten the housing market.

Powell said last week that the Fed is watching the situation carefully, and Mnuchin said earlier this week that Treasury is "going to make sure that the market functions properly."

JPMORGAN CHASE

# JPMorgan halts home equity loans due to coronavirus

**By Kate Berry**
April 16, 2020

JPMorgan Chase has temporarily stopped offering home equity lines of credit due to the nationwide surge in unemployment and projections that U.S. home prices could decline substantially amid the coronavirus pandemic.

The $3.1 trillion-asset bank said Thursday that it is taking steps to mitigate risks in the housing market as it prepares for a surge in defaults by homeowners.

"Due to the economic uncertainty, we're temporarily pausing new applications for home equity lines of credit," said Amy Bonitatibus, chief marketing officer at Chase Home Lending.

The New York bank's customers can still tap into their home's equity through a cash-out refinance of their existing mortgage, Bonitatibus said. Last year, JPMorgan originated roughly 33,000 home equity lines of credit and approximately twice as many cash-out refinances, she said.

Spokespeople for Wells Fargo and Bank of America said that those banks are still offering HELOCs.

JPMorgan Chairman and CEO Jamie Dimon warned this week that the bank is preparing for a worst-case scenario in which its credit costs could exceed $45 billion if the economy remains closed for longer than expected. Under projections reviewed by JPMorgan, home values could decline by 10% and the unemployment rate could climb as high as 20%.

Last week, JPMorgan announced changes to its underwriting standards to ensure that borrowers have equity in their homes if home prices drop nationally. Borrowers applying for home purchase loans now will need a 700 FICO score and a 20% down payment, Bonitatibus said.

The policy changes at JPMorgan come after Fannie Mae's recent announcement to lenders that it is reducing its window for documenting a borrower's income and assets. Fannie will now give lenders 60 days, not the usual 120 days, when purchasing residential mortgages.

That change puts pressure on banks and other financial firms to conduct more due diligence and manual underwriting of lans. It comes at a time when banks are struggling to meet the needs of small businesses and contending with a surge in forbearance requests from homeowners.

The new policies at JPMorgan also come amid rising unemployment. Some 22 million consumers, or 15% of the U.S. workforce, have applied for unemployment insurance in recent weeks.

Mortgage lenders are trying to assess how many homeowners will ask for forbearance as a result of economic damage from the COVID-19 outbreak.

The $2 trillion Coronavirus Aid, Relief, and Economic Security Act passed by Congress late month mandates that all borrowers with government-backed mortgages be allowed to delay mortgage payments for 180 days, and get a further 180-day extension.

A forbearance allows a borrower to defer payments for up to a year for loans backed by Fannie Mae, Freddie Mac and the Federal Housing Administration, as well as smaller government agencies. The deferred payments potentially would be tacked on to the end of a loan and repaid when a borrower refinances or ultimately sells the home.

During the last financial crisis, home

prices fell roughly 35% between 2006 and 2009, according to the S&P CoreLogic Case-Shiller home price index.

JPMorgan set aside nearly $8.3 billion in provision for credit losses for the first quarter, up from roughly $1.5 billion in the same period last year and from $1.42 billion in the fourth quarter of 2019.

BANKTHINK

# Dear Congress: Don't let initial PPP be final word on small-business aid

**By Jo Ann Barefoot and David Ehrich**
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The coronavirus pandemic has shut down small businesses across the country, spreading faster than the economic relief that these businesses are now struggling to access.

Many small businesses are locked out of the $350 billion in stimulus loans that Congress recently authorized simply because the business owner banks with the "wrong" financial institution — a bank that does not make Small Business Administration loans or an SBA lender that opted not to participate in the new Paycheck Protection Program.

At the current rate of uptake, much of the $350 billion in funds has been claimed by the large banks. The current first-come, first-served solution lowered the incentive for smaller banks to participate because they could not build out a front-end application process before the funds were depleted by larger banks.

This strategy has effectively stranded millions of small businesses without access to the very program that was designed to save them simply because they are customers of a credit union, or a regional or community bank. Meanwhile, fintech lenders, which disproportionately serve smaller businesses, got a late start into the program.

Even for small businesses that have successfully applied for a PPP loan, there are still significant gaps in their ability to obtain SBA guarantees and receive the funding. To date, the SBA is reporting the number of applications received, but not the amount of dollars distributed.

In the program's first week, the largest challenge was small businesses' difficulty gaining access to lenders' online applications. The next key bottleneck was lenders' ability to upload applications to the SBA's E-Tran system, which was not built to scale to this volume. More challenges will emerge about how the SBA reviews applications, provides loan guarantees on the loan numbers and disburses the funds — steps that are largely a manual process.

While the horse is nearly out of the barn for the first $350 billion, it is not too late to make changes to the next relief package being contemplated by Congress. To expand PPP access to all small businesses and guarantee a fair distribution of funds (beyond the footprint of the major banks) regulators and lawmakers should consider the following changes in the next relief package:

First, lawmakers should move forward with proposals to allocate funds specifically to smaller lenders and vulnerable businesses. These lenders serve a high proportion of small enterprises and minority- or women- owned businesses in underserved geographies.

More specifically targeted allocations would incent smaller banks and community development financial institutions to participate.

Secondly, while the new law permits fintech lenders to apply for the PPP, only large ones have been approved for it so far. To expand access to more small businesses, every effort should be made to accelerate applications from fintechs. Many of these nonbanks specialize in loans to very small companies that banks rarely serve.

Thirdly, there should be a greater effort to facilitate bank partnerships with fintechs. The urgent distribution of PPP funds has been hampered by the technology limitations of smaller banks. Fintechs with agile tech development can help solve this.

Based on results from a three-day hackathon recently hosted by AIR (the Alliance for Innovative Regulation), fintechs showed they can already provide: a universal platform for onboarding community banks; automated payroll analysis for eligibility; know-your-customer authentication; document management and verification; and anti-money-laundering and fraud support. Separately, fintech lenders that are too small to apply for the PPP could act as "agents" for communty development institutions and smaller banks to ensure the full distribution of fund allocations.

Lastly, the SBA's E-Tran loan processing system, despite enhancements last week, is still a bottleneck in getting urgently needed funds to small businesses.

Two possible remedies should be considered. First, the SBA could partner with fintechs that have ready-made inexpensive solutions, using emergency authority for sole-source contracting if needed. Second, the SBA could establish a bulk application process for major SBA lenders which are experienced with the program.

The SBA would preallocate these banks with a funding allotment and a set of associated loan guarantee numbers. The lenders would then submit the loans in batches timed to SBA capacity, to relieve pressure on the approval process.

Getting critical financial support to America's small businesses has taken more time and been more complicated than anyone has hoped. The process is moving forward, but as one problem is solved, it exposes the next bottleneck.

While the path to get the program to work for some small businesses is blazing forward, there is an opportunity here to implement new policies that can radically expand access and fairness for small businesses across the country.

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WORK FROM HOME

# Morgan Stanley CEO sees much less of a physical footprint in its future

**By Bloomberg News**
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James Gorman is hesitant to make predictions about the future with so much about the coronavirus pandemic still uncertain. One thing is clear, however: Morgan Stanley will have "much less real estate."

"We've proven we can operate with no footprint," Gorman, the firm's chief executive, said in an interview Thursday with Bloomberg Television. "Can I see a future where part of every week, certainly part of every month, a lot of our employees will be at home? Absolutely."

It's an early glimpse of the longer-term changes COVID-19 holds in store for an economy that largely has been operating under stay-at-home orders for weeks. And it could spell tough times for commercial real estate in business centers with dense populations such as London, New York and Hong Kong.

On Wall Street, open for business because finance is considered an essential service, most employees are working out of their houses, apartments or, in many cases, vacation retreats. In Morgan Stanley's case, 90% of the firm's 80,000 employees are working from home.

Gorman, 61, had run the bank from self-isolation while recovering from the coronavirus. He said he's surprised that a firm as complex as Morgan Stanley has been able to function "extremely well" with so much of its workforce off-site.

"That tells you an enormous amount about where people need to be physically," he said in the interview after Morgan Stanley announced first-quarter results.

It's too early to tell whether a wider re-evaluation of Wall Street's real estate requirements will affect plans many firms already have for ambitious new digs. JPMorgan Chase is demolishing its headquarters on Park Avenue to make way for a skyscraper 70 to 75 stories high.

BlackRock has agreed to occupy 850,000 square feet across 15 floors at 50 Hudson Yards on Manhattan's west side, a $25 billion development that also attracted KKR & Co. and Wells Fargo. Nearby, Brookfield Asset Management is completing its Manhattan West project and as of January was close to obtaining a $1.45 billion loan for a new tower there.

Morgan Stanley, with headquarters at 1585 Broadway in Midtown, as recently as 2017 considered a move to Hudson Yards. For now, the firm's employees can still count on being in the office at least some of the time.

"I'm still a huge fan of mentoring, bonding and having teams together and the creative surges that come from having people working together," Gorman said. ❑