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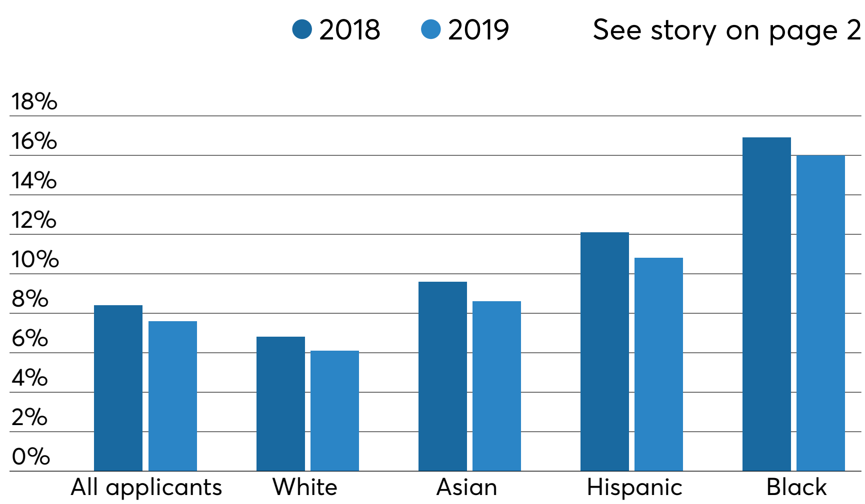
Persistent disparity

Denial rates for conventional mortgages fell across all demographic groups in 2019 but remained comparatively higher for Black and Hispanic borrowers



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dailybriefing

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CFPB

CFPB missed opportunity to call out lending discrimination, critics say

By Kate Berry
September 24, 2020

Amid a national focus on redlining and other forms of racial inequality, the Consumer Financial Protection Bureau has identified persistent gaps in home-loan denial rates by race and ethnicity, but is stopping short of pointing to a pattern of discrimination.

The CFPB's recent analysis of 2019 Home Mortgage Disclosure Act said denial rates are improving slightly across demographic groups, but historical racial disparities have not abated. Black homebuyers were denied loans last year at nearly three times the rate of non-Hispanic white homebuyers, roughly the same gap as 2018. The CFPB also found gaps by race and ethnicity in interest rates and refinance volumes.

But the CFPB, which released the preliminary results in June followed by further analysis in August, said the disparities require further study and left out any suggestion of discrimination. Against the backdrop of national protests over racial equity issues, some observers say the agency is being too timid. The bureau is now empowered to look at more HMDA data than it has before.

Critics say the agency's cautious stance generally reflects how the Trump administration has undercut fair-lending efforts. Some suggested the CFPB sought to avoid a deeper analysis by claiming it was releasing the information as quickly as possible.

"It's regrettable because lots of people have been waiting to see what this data shows about how much of the persistent racial disparities is explainable by facially neutral creditworthiness standards and how much is not, and also which … standards contribute most to disparities in pricing and denial rates," said Diane Thompson, the founder of the Consumer Rights Regulatory Engagement and Advocacy Project and a former acting assistant director in the CFPB's Office of Regulations.

The CFPB found that Black and Hispanic borrowers had notably higher denial rates last year than non-Hispanic white and Asian borrowers. Denial rates for conventional home purchase loans in 2019 were 16% for Blacks, 10.8% for Hispanics, 8.6% for Asians and 6.1% for whites, according to the 69-page report the CFPB released in June.

No conclusions, few referrals

HMDA data is regularly used by bank examiners in supervisory exams and fair-lending investigations. The 2019 data contained information from 5,500 institutions that originated about 8.1 million loans, a 26% jump from 2018, driven primarily by refinancings spurred by low interest rates. The HMDA represents roughly 88% of closed-end originations.

For the first time, the bureau was able to analyze non-public credit score data — long considered a key to unlocking the puzzle of disparities in lending — but the CFPB said more analysis and data is needed in order to reach any conclusions.

"The bureau is identifying disparities and cautioning that, in and of themselves, and even with the analysis by credit score, there's not enough information to conclude that there is discrimination," said Warren Traiger, senior counsel at Buckley, who analyzes HMDA data for financial institutions. "They suggest looking further at the data, but they don't do so themselves."

The release of the consumer bureau's HMDA data in past years would spark a mad scramble by banks, mortgage lenders, advocates and policy experts to slice and dice the information, trying to determine whether financial institutions would be called out individually for discriminating against minority borrowers. Financial regulators use the data to refer potential redlining claims to the Department of Justice.

But such referrals and other fair-lending efforts have not been a priority under the Trump administration, sparking a backlash from Democratic lawmakers. CFPB Director Kathy Kraninger has said the bureau is actively enforcing fair-lending laws, but of the 40 DOJ referrals the CFPB has made since 2011 — peaking at 15 in 2014 — only one has come during Kraninger's tenure.

But some observers say that under HMDA the onus isn't on the agency to publicly call out discrimination.

"It's not the CFPB's job to prove discrimination, but to identify the disparities and make a referral to the Justice Department," said Maurice Jourdain-Earl, managing director of Compliance Tech, a McLean, Va., software firm that specializes in fair-lending matters. "Their responsibility is to collect the HMDA data and make it available to the public."

Still, Kraninger is also seeking to limit the data that lenders are required to submit under HMDA.

The CFPB is on the brink of issuing a new

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rulemaking that is expected to rescind some if not all of the 25 discretionary data fields issued in 2015 under former CFPB Director Richard Cordray. Dodd-Frank mandated 14 additional data fields, including the age and credit score of the borrower, points and fees, prepayment penalties and property value on top of the nine data points collected when HMDA passed in 1975.

Though denial rates for conventional have plummeted from a decade ago, the disparities are nearly identical to those found in 2013 data published by the Federal Reserve in the aftermath of the Great Recession. The CFPB provided only a descriptive analysis of the 2019 HMDA data, whereas the Fed conducted regression analysis. (Dodd-Frank transferred HMDA authority to the CFPB.)

'A story to tell, but they can't tell it'

The CFPB even suggested that other entities take up the mantle of analyzing the data for them.

"The Bureau hopes to provide the public with a roadmap for the new HMDA data, as researchers, government agencies, community groups, financial institutions, and others may use these new data for various other purposes," it said in August.

Some observers say the CFPB missed an opportunity in the report to make a connection between racial disparities in mortgage denial rates and the nationwide focus on systemic racism after the killing of George Floyd.

"They are suggesting there is a story to tell, but they can't tell it," said Jason Richardson, director of research and evaluation at the National Community Reinvestment Coalition. "Essentially they are finding differences in denial rates and discrepancies in interest rates that they can't explain, and they even say that the CFPB needs to do a deeper statistical analysis to explain them, but they're not going to do that deeper analysis."

Others say regulators could more adequately address racial disparities by focusing more holistically on the mortgage market, rather than highlighting conventional loans backed by Fannie Mae and Freddie Mac.

The CFPB's data includes both conventional and nonconventional loans. But Jourdain-Earl questioned why the CFPB appeared to focus on denial rates for conventional loans when roughly 53% of Black borrowers get loans from Federal Housing Administration or the Department of Veterans Affairs.

"The real story here is if you limit the conversation to conventional loans, then you are excluding half of the loans that were made to Black and brown people who mostly got nonconventional government loans," he said.

While denial rates tend to be a focus in the HMDA data, he notes that many minorities often are not even applying for home loans because of redlining, when no credit is available.

"In census tracts with people of color, there are fewer applications and fewer loans," Jourdain-Earl said.

Credit score debate

Observers also said they were disappointed by how the CFPB used new data that was included in this year's HMDA report.

For years, the Fed as well as banks and mortgage lenders claimed that racial disparities were attributed to factors other than discrimination, such as credit scores, debt-to-income ratios or property values — data that either was not collected or not publicly available.

Before 2018, credit scores were not collected in the HMDA data, but scores were added under a Cordray-era rule that went into effect that year.

While experts have waited for the credit score data in particular, the CFPB downplayed its importance.

"Credit scores, though important, are not the only factors used in lenders' underwriting and pricing decisions," the CFPB said in the 282-page report released in August. "Analyzing the denial decisions of mortgage underwriting should not be based on bivariate analysis alone that only examines the relationship between the underwriting decision and one single credit risk factor."

Instead, the bureau suggests a "multivariate statistical regression" analysis is needed to explore the relationship between credit outcomes and a borrower's credit characteristics, the report found.

Many HMDA experts had expected the CFPB to conduct its own deep dive given that the 2019 data included new and revised data points on creditworthiness that experts said should help explain persistent lending disparities over decades. But the bureau instead called for more data and analysis.

"Such analyses would require additional information, some of which is not available in HMDA data, and further, more sophisticated, analyses may be needed that are beyond the scope of this introductory article to 2019 HMDA data," the bureau said.

Some experts were surprised that the CFPB claimed such an analysis was "beyond the scope" of its reporting authority given the agency has sole oversight of HMDA data.

"They drive home the point that credit scores by themselves don't explain denial rates, but the data does show that whites are still less likely to be denied than Blacks even with the same credit score," said Traiger, the Buckley senior counsel. "While the CFPB goes out of its way not to place the analysis in the context of the social justice issues that have topped everybody's agenda since George Floyd's murder, we fully expect advocates and enforcement agencies to dive into these differentials."

Minorities pay higher interest rates

The bureau's analysis found that Black and Hispanic borrowers pay roughly 25 basis points more through higher interest rates than non-Hispanic white borrowers for conventional home loans. For conventional loans, Black homebuyers paid a median interest rate of 4.375%, compared with 4.25% for Hispanic borrowers, and 4.125% for white borrowers, while Asians had the lowest median interest rates, 3.99%.

For the FHA, the interest rates are slightly lower, but borrowers pay more over the life of the loan in upfront and annual mortgage insurance premiums that can add more than 1.75% to the interest rate.

"This is disparate impact and it leads to lower wealth overall and a growing wealth gap between Black and white homeowners," Richardson said. "Justifying it by saying that it's because Black buyers have less wealth already, which manifests as lower credit scores and less money to buy down their rates, doesn't resolve the underlying problem that plagues this system. This hurts all homeowners, it reduces tax revenue for local communities and it perpetuates the expanding racial wealth gap."

Despite record low rates, the CFPB also found that the share of refinance volume to low- and moderate-income borrowers plummeted to 24% in 2019, from 30% in 2018, according to an analysis of the data by NCRC.

The share of refinance loans for Black borrowers fell to 5.3% last year from 6.2% in

2018, the CFPB data found, while Hispanic borrowers' share dipped to 6.2% from 6.8%. In contrast, Asian borrowers' share of refinance activity jumped to 5.4% in 2019 from 3.7% a year earlier. Non-Hispanic white borrowers' share of refinance loans also declined slightly to 61% last year from 63.3% in 2018.

"It's particularly troubling because the lower interest rates that have resulted in a massive increase in refinance activity are primarily benefiting white and Asian middle- and upper-income homeowners," Richardson added.

CARES ACT

Powell, Mnuchin urge more congressional action to deliver pandemic aid

By Hannah Lang
September 24, 2020

WASHINGTON — Federal Reserve Chairman Jerome Powell and Treasury Secretary Steven Mnuchin highlighted the limits of their authorities to limit the economic fallout of the coronavirus crisis as hope for more congressional stimulus appears dim.

Powell and Mnuchin, testifying before the Senate Banking Committee on their pandemic response under the Coronavirus Aid, Relief and Economic Security Act, urged Congress to pass legislation to provide more targeted fiscal support. They emphasized that they don't have the authority to reallocate CARES Act funds or provide direct assistance to small businesses on their own.

"While the economy has been doing better than expected, I think there's downside risk to that if there is no further fiscal support," Powell said.

His remarks came as Goldman Sachs analysts said Thursday that they no longer expect Congress to enact more fiscal relief before the end of the year, leading them to slash Goldman's forecast for fourth-quarter growth in the gross domestic product.

"Most Americans can't afford to wait any longer," said Sen. Sherrod Brown, D-Ohio, the committee's ranking member. "We are up against a global health crisis that will spiral into a global economic crisis unless we act now. We are facing a challenge that requires this government to be at its best, to work together to do big things."

Lawmakers probed the possibility of the Fed expanding its Main Street Lending Program to commercial real estate borrowers and providing more support to states and local governments through the Fed's Municipal Liquidity Facility — actions that Powell and Mnuchin said are more appropriate for Congress.

"We think those industries don't need more debt. What they need is economic relief because they're shut down as a result of COVID," Mnuchin said. He suggested that Congress explore restarting the Paycheck Protection Program, which provided forgivable loans to small businesses through the Small Business Administration, but expired in August.

Republicans and Democrats broadly agree that more fiscal stimulus is necessary, but discussions around enhanced unemployment benefits and funding for state and local governments have held up a larger package. Lawmakers have been unable to pass any piecemeal legislation even on items that they mostly agree on, like extending PPP.

"At this point, I personally believe that we have not had the willingness from the other side to engage in a reasonable package, and that the demands continue to be, 'Our way or the highway,' " said Senate Banking Committee Chairman Mike Crapo, R-Idaho. "And frankly, I believe that there are many items that we have already reached agreement on, or which we could reach agreement on very rapidly."

But there is not much else the Fed can do to prop up the economy on its own, Powell indicated. He added even that some of the funding that Congress had appropriated for the Main Street Lending Program could be better used elsewhere.

"To me it would be PPP… and then after that, I would say something more for those who remain unemployed," he said, suggesting where the leftover money should go.

Mnuchin also mentioned he has asked for congressional authority to reallocate $200 billion of the $454 billion appropriated to Treasury's Exchange Stabilization Fund. The fund served as a backstop for the Fed's emergency lending facilities and has provided loans to distressed businesses, but has not been fully tapped.

"The $500 billion Treasury slush fund isn't making it to Main Street businesses," said Sen. John Tester, D-Mont. "What about the restaurants, the gyms and venues and breweries and distilleries or seasonal businesses and others who are bearing the brunt of this crisis?"

Mnuchin responded that if the money were in fact a Treasury "slush fund," he "would reallocate it to help those businesses immediately."

"But unfortunately, I need congressional authority," he continued. "There's also $130 billion of unspent money in the PPP, so I would encourage that we work together in a bipartisan basis to specifically help the types of small businesses that you're referring to."

Several senators also pressed Mnuchin on the forgiveness process for PPP loans, which has proved to be complicated and confusing for banks and has led many to suggest that loans under $150,000 be automatically forgiven.

"South Dakotans have been overwhelmingly supportive of the relief that the PPP brought to small businesses," said Sen. Mike Rounds, R-S.D. "Recently, however, I've started to hear concerns from dozens of business owners and bankers who have experienced challenges with the PPP forgiveness portal."

Treasury did create "an easy form" for loan forgiveness, said Mnuchin, although he added that he would work with the SBA to simplify the process even further for small borrowers.

"I know there is bipartisan support for going much further, which we think we need legislation for, and we would support, if there is legislation to have loans under $150,000 have a presumption [of forgiveness] but allow for us to audit them as needed," he said.

CORPORATE GOVERNANC

BofA leads effort to draft global ESG standards for public companies

By Laura Alix
September 24, 2020

Investors are increasingly interested in banks' and other public companies' track records on environmental, social and governance issues, but one major challenge has been measuring and reporting progress on those goals in a uniform way.

A coalition of Bank of America, the big four accounting firms and the World Economic Forum, a nongovernmental organization that promotes the concept of stakeholder capitalism, recently released a framework for global ESG standards. The forum's International Business Council, whose current chairman is Bank of America chief Brian Moynihan, outlined 21 nonfinancial metrics to measure how well companies are addressing issues ranging from the gender pay gap to environmental protection.

"We want to set a benchmark with the IBC work so that we can have metrics that are completely transparent to the world from all companies," BofA Vice Chairman Anne Finucane said in discussing the project at a forum panel this week. "That will be a very effective starting point for all of us. It will be an immediate indicator of who is doing well by these metrics and who isn't."

The parties began to collaborate in January after gathering at the World Economic Forum in Davos. COVID-19 and protests over racial injustice across the U.S. have since lent more urgency and strength to the case for stakeholder capitalism, or the idea that corporations have broader responsibilities beyond producing profits for shareholders.

The IBC's metrics are arranged around four distinct areas, or "pillars": people, planet, principles of governance and prosperity. Under people, for example, the standards ask firms to disclose information like workforce statistics, pay data according to race or ethnicity, average training hours and workplace injuries. The "planet" criteria ask companies to report information like greenhouse gas emissions, water use in distressed areas or the number of sites a firm owns, leases or manages near designated biodiversity sites.

The framework also asks for information like the total costs associated with research and development and the percentage of company leadership trained in anti-corruption policies and procedures.

In a white paper titled "Measuring Stakeholder Capitalism," the IBC encourages companies to include these core metrics "where relevant and possible in mainstream corporate disclosures," such as proxy statements and annual reports to investors.

Proponents say the framework makes good business sense. It's a way for a company to demonstrate that it's seriously considering a wide range of potential risks and opportunities. And it will be a useful tool for investors, who want more transparency on ESG issues.

To be certain, there are already other frameworks for reporting ESG issues, many of which the IBC's white paper drew upon in creating its own recommendations. The Sustainability Accounting Standards Board's standards have been voluntarily adopted by many companies, and the Global Reporting Initiative is another example.

"The reason for all that is that the market is crying out for a uniform framework so investors can compare efforts across different companies and industries," said Jim DeLoach, managing director at the consulting firm Protiviti.

DeLoach, who often consults with firms on shareholder demands, said he does not prefer one framework or another, that his comments are not meant as a criticism of any framework and that "they're all great." But right now, he added, it's too early to tell whether the IBC framework will succeed in its goal of widespread adoption.

"What we don't have is enough regulatory direction to assert that this is the framework we need to use," he said. "I think the market's in a quandary over this. There's a crying out for comparability from the investor community, and at the same time everybody recognizes that no one size fits all."

Companies may already be making certain changes, like reducing their water usage or greenhouse gas emissions, for other business-related reasons. For example, Finucane said that a green deal in the European parliament — a proposed pandemic recovery plan paired with a set of environmental objectives — would be "an immediate incentive" for some to reduce their greenhouse gas emissions.

Even if the U.S. doesn't currently have parallel legislation, any multinational company operating in Europe will need to abide by it "as a practical matter," she said.

Finucane went on to say the framework would benefit companies that already do many of these things, by raising their profile among increasingly ESG-conscious investors.

"We meet with institutional investors all the time, and the question of ESG did not come up five years ago," she said. "It came up sort of four years ago, and in the last three years ... that is front and center for every conversation."

DATA SHARING

Wells Fargo says it has nearly eliminated screen-scraping threat

By Penny Crosman
September 24, 2020

When Wells Fargo announced Thursday that it has signed a data-sharing agreement with Envestnet Yodlee, it was a milestone for the company.

Four years ago, Wells Fargo began a campaign to eliminate screen scraping — the practice in which data aggregators sign in to online or mobile banking using a customer's credentials, copy and paste customer account information, and send it to their fintech and other clients.

It began setting up data-sharing agreements with data aggregators in which they agree to gather customer data through application programming interfaces that Wells provides and forgo screen scraping.

Envestnet Yodlee will connect to Wells Fargo and access data on behalf of its customers using Wells Fargo's API and the OAuth authentication standard, rather than bank customers' login credentials, across Yodlee's network of 1,400 clients.

This is the 17th data-sharing agreement Wells Fargo has signed. It's now working directly with all the largest U.S. data aggregators and several big fintechs. Two of those data aggregators recently agreed to be acquired by card networks: Plaid by Visa and Finicity by Mastercard.

With this agreement, Wells Fargo has confirmed plans to transition 99% of current third-party financial app screen scraping to API-based data exchange. Wells Fargo expects it will take about two years to fully integrate with Envestnet Yodlee.

"We've gotten to a point now where we're under agreement with the vast majority of the credential sharing and screen scraping," said Ben Soccorsy, head of digital payments in the digital division of Wells Fargo Virtual Channels. "This gives our customers greater control and transparency over the financial information they choose to share with third parties and gives them the ability to manage those things on an ongoing basis through our Control Tower [app]."

That app, which Wells rolled out in 2018, lets customers see, among other things, which third parties are accessing their bank account data. It lets them revoke those privileges when they choose. The company has been seeing strong use of Control Tower, which also lets customers manage subscriptions and other recurring payments that have been set up on their Wells Fargo cards and accounts, and turn debit and credit cards and mobile wallets on and off, Soccorsy said.

"With the onset of the pandemic, and with customers experiencing unexpected financial stress, the recurring payments controls have proven to be a powerful component of Control Tower that has resonated now more than ever," Soccorsy said. "That speaks to the notion that we want to provide transparency and control for our customers, not just on the recurring payments and subscriptions, but also on the data sharing."

For its part, Envestnet Yodlee has signed data-access agreements with several financial institutions, including Citigroup, JPMorgan Chase, Bank of America and Charles Schwab.

"None of the agreements are exactly the same, but they all have alignment around the key principles: moving from screen scraping to an API, moving from requiring the customer to entrust their online banking credentials to us, to an Oauth-based, redirected flow," said Brian Costello, vice president of data strategy at Envestnet Yodlee. "And in general, [the agreements set] requirements for transparency and control, uplifting the governance of the ecosystem."

The data-access agreements set the rules of the road for accessing the financial companies' API, authenticating, registering customers and meeting security, privacy, risk and compliance requirements.

"These bilateral agreements are ensuring that there's a minimum standard of customer protection, which is absolutely fantastic for the industry," Costello said.

Envestnet Yodlee is currently under investigation by the Federal Trade Commission for potential data privacy lapses. Three Democratic lawmakers urged the FTC chairman in a letter in January to look into Envestnet Yodlee's practice of selling anonymous customer data to third parties such as hedge funds.

In their letter, Sen. Ron Wyden of Oregon, Sen. Sherrod Brown of Ohio and Rep. Anna G. Eshoo of California wrote: "The consumer data that Envestnet collects and sells is highly sensitive. Consumers' credit and debit card transactions can reveal information about their health, sexuality, religion, political views and many other personal details. And the more often that consumers' personal information is bought and sold, the greater the risk that it could be the subject of a data breach, like the recent breaches at Equifax and Capital One."

The legislators said Envestnet does not adequately notify consumers that their personal financial data is being sold to third parties, which violates the FTC Act's prohibitions against unfair and deceptive practices.

In August, a class action lawsuit filed against Envestnet Yodlee also complained of the way it handles and sells customer data.

Soccorsy and Costello said they couldn't comment on these matters.

M&A

How a New York bank merger came together during the pandemic

By Paul Davis
September 24, 2020

The coronavirus delayed, and nearly derailed, a big merger of New York banks.

Dime Community Bancshares in Brooklyn and Bridge Bancorp in Bridgehampton were in the homestretch of negotiating their $489 million dealin late March — Bridge had even scheduled a board meeting to approve it — when the pandemic created uncertainty.

Instead of endorsing the deal, Bridge's board decided at its April 1 meeting that, given the "economic and market downturn" tied to the coronavirus, "it was not the appropriate time to enter into" a transaction, according to a recent filing tied to the merger.

A sharp decline in Bridge's stock price also skewed the proposed exchange ratio so much that it threatened the deal's earnings accretion, prompting the two sides to formally end talks in late May. An improvement in Bridge's stock price in early summer adjusted the math enough to bring the parties back to the table.

The two sides eventually agreed to a merger of equals in July, but the ups and downs of the negotiations outlined in the filing show the delicate nature of trying to structure a merger in the middle of a pandemic.

Several announced deals — including the proposed mergers of Texas Capital Bancshares and Independent Bank, Ally Financial and CardWorks and Nicolet Bankshares and Commerce Financial Holdings — have been called off, while many others have likely fallen apart before they could be finalized.

A big reason Dime-Bridge came together, beyond a modest rebound in bank stocks, was the constant communication between the companies. Most of the deal's terms were locked down pre-pandemic, and executives kept one another informed about coronavirus response efforts.

The first discussion about a merger took place in mid-December, when Kenneth Mahon, Dime's CEO, met Kevin O'Connor, Bridge's president and CEO, for dinner.

They determined at that meeting that their companies had complementary balance sheets — Bridge is a big commercial real estate lender while Dime has spent recent years looking to make more commercial-and-industrial loans — and similar long-term strategies.

The process took off from there and the parties quickly made progress.

Bridge's board created a special committee on Dec. 20 that included Marcia Hefter, the company's chairman, and Mathew Lindenbaum, an activist investor who had joined the company's board in 2018.

During a Jan. 16 meeting, Mahon and O'Connor sketched out the framework for a proposed merger of equals that would have evenly divided board representation and featured key executives from both companies. But Mahon expressed his board's desire to keep "the iconic Dime brand name," the filing said. Dime Savings Bank of Williamsburg, a predecessor, was formed in June 1864.

Mahon and O'Connor put more of the pieces together on Feb. 5, covering topics such as corporate governance and the company's reporting structure. They discussed having Mahon serve as executive chairman with O'Connor as CEO. The headquarters and key operational centers were discussed two days later.

By Feb. 10, the executives had filled all the high-level executive posts, identifying officers from both companies. The two sides quickly worked out a plan involving a fixed exchange ratio and exclusive negotiations. An initial draft of the merger agreement changed hands on March 6.

Bridge's board on voted March 11 to meet on April 1 with an intention to approve the deal.

But the coronavirus began making its way into conversations. Bridge's special committee discussed COVID-19 during a March 13 meeting, and the topic came up when Dime's board met two days later. Executives also began to exchange information about coronavirus response efforts.

Both companies were also monitoring fluctuations in their stock prices.

Still, Bridge's compensation committee on March 31 approved employment contracts for top executives. Dime was set to approve a separation agreement with Mahon, making him eligible for severance.

Market volatility began to complicate the financial considerations. Bridge's stock fell by 24% between Feb. 27 and March 31, outpacing a 21% decline in Dime's stock. As a result, the exchange ratio increased to 0.648 shares of Bridge stock, cutting into the deal's projected earnings accretion.

Coronavirus dominated Bridge's April 1 board meeting even though due diligence was "substantially completed" and the terms of the merger agreement "had been negotiated to both parties' satisfaction," the filing said.

"Before any conclusion was reached as to an appropriate exchange ratio, the discussion turned to the current situation in the New York metropolitan area" tied to the pandemic. "It was noted that the pandemic had yet to peak in the New York area in terms of cases, fatalities and the economic fallout."

So Bridge's directors had O'Connor contact Dime to tell it that, while the board endorsed the transaction, "now was not the right time to proceed," the filing added.

During the pause, executives stayed in touch, monitoring pandemic responses and the potential exchange ratio. The ratio remained elevated, weakening the chances of working out an acceptable transaction.

Though the companies agreed to extend the exclusivity period to consider an "acceptable" exchange ratio, they failed to find middle ground and officially terminated negotiations on May 29.

Just two weeks passed before the companies decided to reengage.

By June 15, Bridge's stock had improved "both in absolute terms and relative to the improvement in Dime's stock price," bringing the exchange ratio back "within an acceptable range," the filing said.

Mahon made it clear that Dime wanted the same 0.648 exchange ratio that had been discussed on March 31, subject to an updated loan review and due diligence. Bridge's special committee backed those terms, and the companies targeted July 1 for signing a merger agreement.

When the revised merger agreement was reviewed in late June, there were "no material changes" from the terms reached on April 1, the filing said. The final round of due diligence took place over the last week of June, covering loan deferments, pandemic-related loan exposures and each bank's portfolio of Paycheck Protection Program loans.

The boards unanimously approved the merger on July 1; it was announced the next day with an expected close in the first quarter. The deal, with Bridge as the legal acquirer, valued Dime at 97% of its tangible book value.

The headquarters will be moved in Hauppauge, N.Y., with a corporate office in New York. The combined company, which will retain the Dime brand, will have 66 branches, $11 billion of assets and $8 billion of deposits.

The deal is expected to be 7% accretive to the company's earnings per share. It should be 0.4% accretive to its tangible book value.

The plan is to cut about 15% of the combined company's annual noninterest expenses, or roughly $32 million, largely by renegotiating vendor contracts and reducing technology costs. The companies expect to incur $60 million in merger-related expenses.

The merger "will allow us to build on our complementary strengths and provide significant value for shareholders," O'Connor said in a release announcing the deal.

"Our enhanced branch footprint and increased capital base will allow us to better serve the needs of our customers," O'Connor added. "Both companies have strong balance sheets and demonstrated histories of low loan losses … which give me confidence that we will be well-positioned to succeed in any environment."

COMMUNITY BANKING

Orrstown in Pennsylvania to close branches, cut jobs

By Jim Dobbs
September 24, 2020

Orrstown Financial Services in Shippensburg, Pa., plans to cut branches and jobs and reduce office space in an effort to lower expenses.

The $2.8 billion-asset company said in a press release Thursday that it will shutter six branches, roughly a fifth of its network, and eliminate excess office space. It also plans to reduce headcount by 8%, or roughly 35 positions, based on data from the Federal Deposit Insurance Corp.

Orrstown closed five branches last year.

Orrstown said the moves will reduce it annual pretax expenses by about $4 million. It will incur a pretax charge of $1.5 million in the third quarter tied to the initiatives.

The company also said it would pursue new strategies in 2021 to support fee-based revenue and offset what is expected to be a protracted period of historically low interest rates.

"All of these changes are designed to proactively prepare for a challenging operating environment in 2021," Thomas Quinn Jr., Orrstown's president and CEO, said in the release. He said the company is also bracing for higher credit costs next year.

Orrstown also provided an update on forbearance trends, noting that deferrals had fallen from 15.1% of total loans on June 30 to 5.8% on Aug. 31.

ELECTION 2020

Fed's Brainard seen at top of Biden's Treasury secretary list

By Bloomberg News
September 24, 2020

Democratic presidential nominee Joe Biden's search for a Treasury secretary is widely seen as focusing on Lael Brainard of the Federal Reserve, a choice that would keep both Wall Street and progressives in line.

The more provocative choice of Sen. Elizabeth Warren hasn't been ruled out but is far less likely, and other possible names are being discussed for the top finance job if Biden wins November's election, according to nine people familiar with the candidates and Biden's thinking.

The former vice president wants to make a historic choice for the job that has always been held by a white man, some of the people said. But he also wants a Treasury pick who would be universally accepted and Brainard, a member of the Fed's board of governors, could fit that bill. She wouldn't upset Wall Street or progressives, two constituencies that Biden would want on his side in working toward an economic recovery and avoiding Democratic infighting.

One person who has discussed Brainard's career moves with her said that she has expressed more interest in being Fed chair than in leading the Treasury, but wouldn't turn Treasury down if offered.

Current Fed Chair Jerome Powell, picked by President Trump, is slated to serve until 2022, at which point the president may reappoint him or choose someone else.

Warren, meanwhile, has fans who argue that she is skilled at communicating economic policy to the country and within Washington, and could help a Biden administration execute a larger-scale plan to reshape the economy than other candidates.

Financial industry worry

But her antipathy to Wall Street and progressive views would worry the finance industry, which has long feared her legislative and regulatory wrath.

"If the Treasury pick were Brainard, the markets would take that as a signal that Biden intends to govern as a moderate, not give in to the progressive wing, so it sends a broader message," said Stephen Stanley, chief economist at Amherst Pierpont Securities. "There would probably be some measure of relief that it's not Elizabeth Warren but someone viewed as far less hostile.

Dislike on Wall Street for Warren runs deep.

"She's spent her entire career in Congress on a crusade against the banks," said Thomas Simons, a strategist at Jefferies in New York. "Wall Street would absolutely hate to have her as Treasury secretary."

Ex-Fed official Roger Ferguson and Atlanta Fed president Raphael Bostic, both Black men, are also seen as possibilities for the job, people familiar with the matter said. Former Treasury Deputy Secretary Sarah Bloom Raskin is said to be lobbying for the role, they said. Any of these candidates could land elsewhere on a Biden administration's economic team.

Brainard, Warren, Bostic and Raskin declined to comment, as did the Biden transition team. Ferguson did not respond to requests. All of the people who discussed the candidates' possible Treasury picks asked not to be identified because no decisions have been made.

With the election 39 days away, Biden is leading Trump by about 7 percentage points in national polls and is ahead by a narrower margin in most battleground-state polls.

Mnuchin tenure

If Trump wins reelection, Steven Mnuchin, who has served as Treasury chief since 2017, has publicly said he would serve a full second Trump term. Mnuchin declined to comment through a Treasury Department spokesperson.

Biden aides have suggested he may announce some of his Cabinet picks before the election.

Filling the role of Treasury secretary is a recruiting challenge for even the savviest of presidents and transition teams. The job usually demands a versatility unlike other cabinet posts: someone who can speak in plain language to average Americans, command gravitas with financial markets and negotiate diplomatically with foreign finance ministers and members of Congress.

Whoever is in the job in 2021 will face an economy ravaged by COVID-19. The unemployment rate remains elevated at 8.4%, after hitting a half-century low in February before the pandemic shut down the economy. The next Treasury chief may need to navigate an impasse in Congress over stimulus funding, and work through markets to finance massive amounts of government spending.

Aware of the headwinds, Biden's Wall Street donors have been talking up potential candidates from their own ranks, such as BlackRock's Larry Fink or Blackstone's Tony James.

Fink told his senior leadership team and the board that he was not interested in a job in Washington, and would remain at BlackRock, according to a person familiar with the matter.

Fink and James both declined to comment through spokespeople.

Women candidates

Since Hillary Clinton considered

candidates for the position in 2016, Democrats have agreed that the party's next pick to lead the department would be a woman, something that people knowledgeable about the selection process still say is likely.

Obama administration alumni supportive of Brainard are casting her as a potential middle ground among all the forces that would be weighing on Biden post-election.

Progressives don't object to her as they would a former Wall Street executive. They say that even though they don't see her as one of their own, they give her credit for reaching out to progressives in recent years.

Brainard, 58, a Harvard-educated economist, has been on the Fed's board since 2014. In recent years, she has made efforts to lean toward more progressive policies such as the Community Reinvestment Act. In January she gave a speech highlighting reform efforts necessary to encourage more lending in low- and moderate-income markets.

She also served as a Treasury undersecretary for international affairs under former President Barack Obama, when Biden was vice president.

Still, the progressive wing of the Democratic Party may influence Biden's personnel choices for his economic team. Nearly two dozen progressive organizations wrote a joint letter to the Biden campaign on Thursday, demanding a pledge to appoint candidates supporting more spending to create a more equitable economy.

"The pandemic and economic crisis demand the federal government respond as it did during the Great Depression and World War II," according to the letter. Signatories include Demand Progress and the Revolving Door Project. "Candidates must match their words with action and pledge to install personnel we can rely on to follow through.

Biden has been courting wealthy bankers throughout his candidacy, even as he describes the choice between him and Trump as one between Scranton, Pa. — his working-class birthplace — and Wall Street.

Employees of securities and investment firms poured $9.2 million in a little more than two months into the Biden Victory Fund, which raises money for Biden and the state and national Democratic parties, according to the Center for Responsive Politics. The fund hasn't disclosed donations since June 30, but super-political action committees, which file more frequently, have raised $43.3 million from industry donors through July.

CASH

Armored trucks stand ready for cash-carrying consumers to return

By Bloomberg News
September 24, 2020

The use of cash took a dive in the early days of the coronavirus pandemic, but Brink's Co.'s Doug Pertz is on a crusade to prove paper currency is far from dead.

From his perch as chief executive of the armored-car company, Pertz watched as consumers turned to online shopping in droves during the early days of the pandemic, crimping his business of sending out trucks to shuttle money back and forth between banks and retailers.

But now, as retailers reopen, the company has seen a 20% increase since January in the amount of cash processed in its own systems, signaling that as users return to stores they're choosing to pay with cash.

"I worry about it all the time," Pertz said in an interview. "But even during the pandemic, there was more cash usage across the board."

Before this year, Brink's had seen its stock price soar, ending 2019 close to an all-time high after climbing 40% over 12 months. Since then, shares have lost more than half their value, making Brink's one of the worst performers in the S&P 400 Industrials Index, as investors worry whether consumers will return to stores — and resume using cash — after the pandemic releases its grip on global commerce.

A Federal Reserve survey conducted in May shows they just might. Among consumers who made an in-person payment in the previous two months, 59% reported using cash at least once, according to the study. That's up from the 57% of consumers who reported using cash in the central bank's 2019 survey.

Despite the explosion of digital payments in recent years, U.S. consumers have stubbornly stuck with using cash, especially for small-value transactions. Paper currency is used for almost half of all purchases under $10, and 40% of those $10 to $25.

But the pandemic has at least undercut the idea that cash is king. For months, consumers were forced to shelter in place, leaving them with little choice but to do much of their shopping online, where cash typically isn't an option. In the early days of the pandemic, some physical stores sought to limit customer use of cash as a way of protecting their employees. And a nationwide coin shortage prompted many retailers to ask consumers to pay with cards if they couldn't come up with exact change.

Pertz is quick to point out that cash and coins carry fewer germs than credit cards, with the virus tied to the COVID-19 pandemic able to live on plastic for as long as 70 hours, compared with 25 hours for cardboard.

"The transmission of COVID is really done through air particles and not surfaces, but even if it was done by surfaces, cash is one-third as likely to be a transmitter," he said.

During the height of nationwide lockdowns, Brink's trucks were making 32% fewer stops. By July, the company had recovered to 83% of its previous volume. And all of its customers that had reopened were accepting cash.

Brink's, for its part, is doing what it can to help store employees, who may be nervous about germs, touch physical money less often. New products from the company allow retailers to accept bills and have them deposited more quickly in their bank accounts.

"Our retailers are looking to just get back up and running and be able to accept cash," Pertz said. "Because it is being used."

FRAUD

Banks report record spike in fraud as U.S. business aid flows

By Bloomberg News
September 24, 2020

U.S. banks and credit unions reported skyrocketing levels of suspected business-loan fraud last month, a period that coincided with growing awareness of scams involving government small-business aid programs.

Financial institutions filed 1,922 suspicious activity reports involving business-loan fraud in August, data from the Treasury Department's Financial Crimes Enforcement Network show. That's about 14 times the monthly average for the six years beginning in 2014, the earliest date for which data is available. It's the fourth consecutive monthly record.

The statistical data don't show what's causing the spike in reports. Neither Fincen nor the Small Business Administration's inspector general said they could comment on a potential link.

But the reports coincide with a wave of applications for the SBA's Economic Injury Disaster Loan program, which has distributed more than $200 billion and which the agency's inspector general, Hannibal Ware, warned in July is plagued by "pervasive fraudulent activity." They also coincide with the last days of another SBA program, the $525 billion Paycheck Protection Program, which concluded on Aug. 8.

The Project on Government Oversight, a Washington-based nonprofit, published an article earlier this month noting the spike in business-loan fraud reports through July and their potential connection to SBA programs. The August figures weren't available at that time.

In his July 28 report, Ware cited thousands of reports of potential fraud from financial institutions, including banks and credit unions. In many cases, the institutions were noticing that individuals with no apparent connection to a small business were receiving disaster-loan aid proceeds in their personal bank accounts.

'Rampant' misuse

The Fincen suspicious-activity statistics show that most of the suspected fraud was thought to involve bank customers, that it was linked to deposit accounts and that it involved government payments.

Last month, Bloomberg News reported that it identified 52 congressional districts where the SBA sent more $10,000 disaster-loan grants than the number of eligible small businesses. In all, there were about 128,000 excess grants worth almost $1.3 billion.

About half of the total was in the Chicago area.

Earlier this month, Bloomberg reported that JPMorgan Chase, the nation's largest bank, had uncovered "rampant" misuse of the disaster-loan program by its customers, including a few of its own employees. It sent a companywide memo encouraging employees to report any unethical activity they'd witnessed.

In a statement, Fincen said it couldn't comment on the reason for the surge in reports but that it has "done extensive work in reaction to" COVID-19" and that it has "raised awareness within the financial industry of red flags and targeted scam techniques."

BANKTHINK

Want diversity? Move beyond your closed network

By Malia Lazu
September 25, 2020

Excuse or not, the challenges of finding diverse talent are a reflection of the segregated country.

While the quest for diverse talent seems quixotic, it's actually a critical goal that reflection and strategy can solve — if it's understood why it's hard in the first place.

Unfortunately, some leaders in the banking industry and others have incorrectly claimed that a lack of diversity was due to not having enough diverse candidates. Such claims were recently made by Wells Fargo CEO Charlie Scharf, only reigniting the debate.

In earnest, the difficulty of recruiting diverse candidates reflects the fact that the networks the banking industry typically relies upon to attract and recruit talent do not reach diverse pools of talented candidates. This network gap is insidious too, leading to a lack of diversity in other aspects of business, like vendor procurement and investment.

Once, Mitt Romney spoke of "binders full of women" when running for president. While his wording was inartful, he seemed to recognize that he needed to make a deliberate effort to build his network of talented women in order to be able to appoint numbers of qualified women.

So, what deliberate steps can banks take to close the network gap and find talented people of color? Here are a few things any bank can do to turn intention into impact, and close the network gap.

Begin with reflection: Why are you not tied to diverse networks? Do you know where to find black and brown civil society?

Learning why your company may not be a cultural fit for certain demographics is nothing new for banks. Gender is probably the most recent example.

Understanding that women bring different and needed experience to leadership creates an impetus for more diversity. Hiring goals, mentorship programs, employee resource groups and even breastfeeding rooms were inclusive shifts to create a workplace where women can thrive.

While gender is not 100% analogous, it does highlight the way a company must change to attract and retain a more diverse team.

Next, listen to your bank's managers and employees of color. A lot of a bank's diversity sits in the branches. Management and employee resource groups can work to create a safe space for them to share their experience and ideas.

Employees of color are the experts in how a company can improve when it comes to race. Explore your company's assumptions when using terms like cultural fit, relative experience and appropriate education. These could actually be a barrier to attracting and retaining talent.

To ensure the conversations are productive, an outside facilitator can help everyone feel comfortable.

Learn how minority banking and finance culture may be different from mainstream banking culture. A distinct world of minority finance exists and they are experts in feeling comfortable in the industry.

While these minority-focused entities are smaller in size, their culture, experience and understanding of racism in banking can be a guide for any bank. The FDIC encourages partnerships and can be a resource into these networks.

Host listening sessions with people — customers, community leaders, partners — who may not always agree with you. Constructive criticism and outside-the-bank thinking is what's needed to innovate ways to attract and retain talent. These can be private off-the-record conversations, or you can decide to be bold and create a community advisory group to advise on the diversity efforts.

Closing the network gap can be a positive, transformative experience for your company, driving innovation, employee engagement and improved customer service. It also can be profitable: researchers at McKinsey have found "companies in the top-quartile for ethnic/cultural diversity on executive teams were 33% more likely to have industry-leading profitability."

A more diverse, talented workforce exposes your company to new people and new ideas. It's democratizing because all levels of employees have something to offer and it can help open new markets.

Creating a strategy to close the network gap will help navigate through the segregated society. Finding diverse talent is more than the right thing to do, it's the most advantageous way forward.

Malia Lazu is a lecturer at MIT Sloan Business School and founder of the Urban Labs.

DIVERSITY AND EQUALITY

Square to invest $100 million in minority communities, entrepreneurs

By Kate Fitzgerald
September 24, 2020

Square is moving to help minority and underserved groups by investing $100 million in nonprofit financial institutions and Black-owned businesses.

The move is timed to meet rising needs in a tumultuous year, with Square promising to make deposits in community development financial institutions (CDFIs) and minority depository institutions (MDIs) and invest in various programs supporting Black-owned banks and businesses, Square said Thursday.

The investment amount represents 3% of Square's cash and marketable securities at the end of the second quarter of 2020, and it will continue providing support to these causes in the future, Square said in a press release.

"Square believes it is critically important to ensure that access to financial services is not just reserved for those with privilege," Square said, noting there are fewer than two dozen Black-owned U.S. banks.

Square said it will invest $25 million in CDFIs and MDIs across the U.S. and $25 million in the National Bankers Association's Keeper Fund, which drives employment opportunities for underserved groups.

The Black Economic Development Fund will receive another $25 million investment from Square to fund Black-owned businesses and projects and programs to revitalize minority communities.

Square has earmarked another $25 million for future investment in social impact projects, with details to be announced later, Square said.

Square noted that it made its first deposits to CDFIs and MDIs last year.

One beneficiary of Square's investments is Citizens Bank, a Nashville, Tenn., CDFI that received a deposit from Square earlier this year.

"As the oldest continuously owned and operated African-American bank in the U.S. and as a CDFI, Citizens Bank is very focused on establishing collaborative partnerships with organizations that are aligned with our longstanding commitment to provide superior financial services and financial education to the African-American community, as well as other underserved minority groups," Sergio Ora, Citizens Bank's president and CEO, said in the release.

COMMERCIAL LENDING

NYC commercial property crisis signals hazards for local banks

By Bloomberg News
September 24, 2020

Before the pandemic emptied the city, few lenders benefited from the heady local real estate market as much as regional players New York Community Bancorp and Signature Bank.

Now they're becoming a case study for potential trouble from a sudden downturn in the Big Apple's property sector, and their share prices are suffering. New York Community Bancorp and Signature were among the top five most active lenders in New York in the first half of the year, and almost all of their portfolios are tied to the area.

With retail and apartment vacancies rising and rents falling, and with the prospect of employers cutting their office space looming, the question is whether the hundreds of millions of dollars the banks have set aside for commercial-property loan losses will be enough. An epicenter of COVID-19, the city shut down in March, earlier than many parts of the U.S., and its reopening has been cautious, with workers still at home and restaurants not yet open for indoor dining.

"It could be a two-, three-year window of things slowly working itself out," Jim Costello, senior vice president at the property-research firm Real Capital Analytics, said in an interview. "There are going to be some price changes, but is it enough to get through to the lenders? That would have to be kind of severe."

At New York Community Bancorp, mortgages make up more than 90% of the loan portfolio, accounting for almost $39 billion of financing as of midyear, mostly tied to real estate in the New York City area. Signature Bank says more than 60% of its loan book is secured by commercial real estate, "substantially all" of which is located in the New York area. By comparison, Wells Fargo was the most active lender in the city in the first half of the year, but loans in New York state accounted for just 2% of its total lending portfolio at midyear.

Loan reserves

Westbury, N.Y.-based New York Community Bancorp has $155.8 million set aside for soured mortgages after bolstering reserves in the first half of 2020. That represents 0.4% of its commercial real estate loan book, compared with the 2% Wells Fargo has set aside.

New York Community Bancorp's debt outlook is negative at S&P Global Ratings. In June, the ratings firm said that multifamily loans make up about 75% of the bank's total loan book, and that its "landlord borrowers will likely have reduced cash flows at least in the near term." The lender's retail real estate exposure could also be "vulnerable," S&P analyst Barbara Duberstein wrote.

New York Community Bank's loans in the city include a $21 million mortgage for an apartment building at West 160th Street that was formerly home to the actor and civil rights icon Paul Robeson, a National Historic Landmark that bears his name, federal and city records show.

Chief Executive Joseph Ficalora said on New York Community Bancorp's second-quarter earnings call that "rent collections have been quite strong." The company granted payment deferrals for almost $6 billion of loans for a six-month period that expires in October or November for most borrowers.

Questions remain about how bad things will get, making it difficult to predict what losses may be coming for banks. On one hand, Facebook signed a massive lease for office space in Manhattan last month, a vote of confidence from one of the largest U.S. companies. Yet Manhattan office leasing in 2020 could slump to the lowest level in 20 years, according to brokerage Colliers International. And there is more space available as tourism-dependent sectors suffer, which "will undoubtedly place pressure on rents," according to a July report from Jones Lang LaSalle.

"We're sort of waiting for the nonperformers to show up, and what losses will eventually manifest themselves, but the biggest area for them is the retail" commercial real estate, Bloomberg Intelligence analyst Herman Chan said in an interview. "Next year is going to show which banks did better from an underwriting standpoint versus others. It's all about client selection. It's all about underwriting and how conservative these banks were."

New York Community Bancorp's shares have sunk 30% this year through Wednesday, compared with a 0.2% gain for the S&P 500 and a 24% drop for the S&P 500 Financials Index. The declines have been even more dramatic for other regional lenders focused on New York. Signature Bank's shares have slumped 39% and M&T Bank's have plunged 46%.

Last year, New York Community Bancorp's shares surged 28%, and Signature's soared 33%, outperforming the 20% increase in the KBW Regional Banking Index. M&T's stock increased 19%.

Short sellers are betting on further declines. Short interest represented 5% of tradable shares at New York Community Bancorp and 2.8% at Signature Bank, according to data from the financial-analytics firm S3 Partners. That figure was less than 1% at the five biggest U.S. commercial banks.

For Signature, the bank's "financial condition and results of operations may be affected by changes in the economy and the real estate market of the New York metropolitan area," it says in regulatory filings.

A $50 million loan for a building on the Upper East Side that houses the Bentley Hotel is among Signature's real estate financing in the city. During the pandemic, the hotel is housing more than 300 homeless men, with half of them in their own rooms, under a city contract, according to Elizabeth Lion, a spokesperson for the nonprofit Doe Fund.

The bank, based in New York City, has almost $340 million set aside for soured commercial real estate loans, or 1.2% of that book. On Signature's second-quarter earnings call, CEO Joseph DePaolo said that payment collections on multifamily mortgages had been a "very pleasant surprise," at more than 80%. Office collections were 65% to 85%, and retail was 35% to 65%, he said.

Construction loans

While M&T Bank is larger than many regional competitors, with a presence across the mid-Atlantic region, the Buffalo, N.Y., company has a large exposure to New York City and is big in construction lending — generally viewed as among the riskier areas of commercial real estate financing. It was the largest construction lender in New York in the first half of 2020, according to Real Capital Analytics. The bank led a $230 million construction loan for the retro-themed TWA Hotel at John F. Kennedy International Airport.

In the second quarter, M&T reclassified almost $3 billion of commercial-property and commercial-construction loans as "criticized" — meaning regulators would view them as having credit weakness — bringing the total percentage of criticized loans for those portfolios to 11.6%. After that, "the question is, do some of these end up going nonperforming?" CEO Rene Jones said at a conference last week.

Jones said he's confident in M&T's client selection and the protections the firm has in place on loan to value, or how much it lends as a percentage of asset values. "As we get into the fourth and first and second quarters, I think the picture becomes much clearer," he said.

Largest lender

At San Francisco-based Wells Fargo, New York state is the second-highest geographic concentration for the bank's commercial real estate loan portfolio, after California. But the firm's $15 billion loan portfolio in New York represents a much smaller proportion of commercial-property lending than its regional competitors, and such financing accounts for only about one-sixth of Wells Fargo's total loans.

"The problem loans have skewed towards retail projects, many of which were already struggling, and then also the hotel owners with lower capitalization," Chief Financial Officer John Shrewsberry said on Wells Fargo's second-quarter earnings call. The bank is working through issues borrower by borrower, he said. "There is not a lot of panic at this point in the cycle."

Executives across the lending industry are optimistic. Banks learned lessons during the financial crisis and now have stronger underwriting standards. As the pandemic torpedoed the U.S. economy and New York City sheltered in place, lenders kept making loans — a contrast from the last crisis, when liquidity dried up.

Banks are also trying to avoid another phenomenon from the last crisis: getting stuck with foreclosed-upon properties. Lenders are working closely with borrowers to restructure loans, betting clients have additional capital they'll put up so properties don't end up in the hands of the banks.

"It's sort of a domino effect of, first you get some distressed debt, then it leads to a few distressed-property sales, everybody readjusts their pricing expectations on those distressed sales, and then lenders aren't going to lend at the same prices from before," said Costello of Real Capital Analytics. "And we're not even through that first step yet. It's a whole chain of things and it just hasn't happened."

M&A

Dollar Bank seeking heft around Pittsburgh with Standard acquisition

By Paul Davis
September 25, 2020

Dollar Mutual Bancorp in Pittsburgh has agreed to buy Standard AVB Financial in Monroeville, Pa.

The $9.8 billion-asset Dollar said in a press release Friday that it will pay $158 million in cash for the $1.1 billion-asset parent of Standard Bank. The deal is expected to close in the first half of 2021.

Standard has 17 branches.

"We feel this is an excellent fit," James McQuade, Dollar's president and CEO, said in the release.

"We share the same core values, commitment to our customers and dedication to the communities we serve," McQuade added. "I am excited for the opportunities to drive our strategic growth and maximize our long-term value, while strengthening Dollar's presence in the region."

Standard Bank will operate as a wholly owned unit of Dollar. Andrew Hasley, Standard's president, will retain that position.

The agreement "allows us to honor our longstanding commitments in the community, while continuing to serve our customers with the same high level of personal service," Hasley said in the release.

Raymond James and Luse Gorman advised Dollar. Keefe, Bruyette & Woods and Kilpatrick Townsend & Stockton advised Standard. ❑