AMERICAN BANKER®

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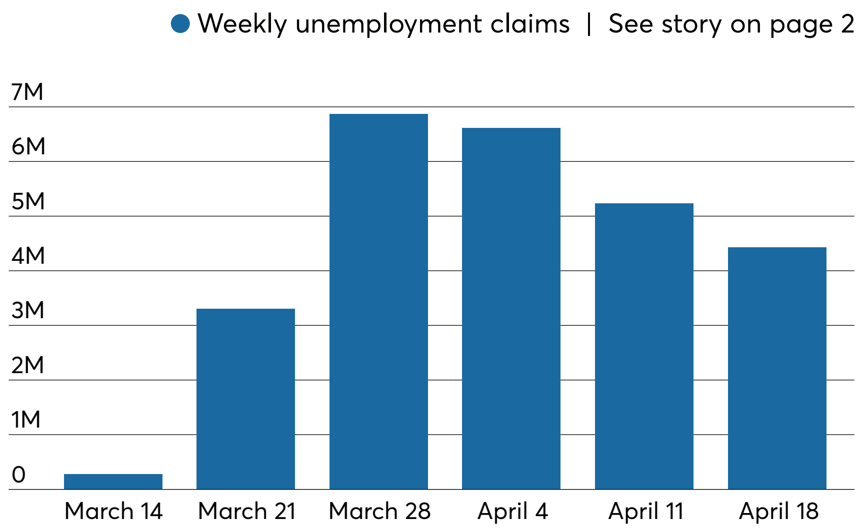
# Seeking relief

More than 26 million Americans have filed for unemployment insurance since mid-March. Innovations in banks' overdraft programs could help many who have lost jobs make ends meet.




Source: Bureau of Labor Statistics

## dailybriefing

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SMALL-DOLLAR LENDING

# Banks are waiving overdraft fees. Should they be doing more?

**By Allissa Kline**
April 28, 2020

Banks didn't hesitate last month to waive overdraft fees when the coronavirus pandemic capsized the national economy and put tens of millions of people out of work and under severe financial distress.

Now, as the struggle continues, a growing number of voices are calling for banks (with the help of their regulators) to go a step further by making creative use of overdraft programs and other small lines of credit as a way to get money into the hands of cash-strapped consumers and businesses as quickly as possible.

Citizens Bank of Edmond, a $300 million-asset lender in Oklahoma, already crafted a no-interest overdraft line that customers repay when they receive checks from the federal government's $2 trillion coronavirus relief bill. But CEO Jill Castilla says there is more that should be done—specifically, creating an overdraft line-of-credit program backstopped by the federal government to reduce banks' risk.

"It's the most expeditious way for borrowers — consumers and businesses — to access credit," said Castilla, who is also a member of the board of the American Bankers Association. "It's something that's never been done before ... using lines in a more substantial way to get funds."

By and large, banks have not substantially modified their overdraft programs in the wake of the COVID-19 crisis and the ensuing economic fallout. To be sure, they want to help their customers — most are waiving overdraft fees automatically or by request — but so far there have been no permanent shifts.

That could soon change as lawmakers continue to put pressure on banks to cut overdraft fees in favor of "reasonably priced" overdraft lines of credit, and five prominent regulatory agencies call on financial institutions to provide "responsible" small-dollar loans to consumers and small businesses.

Add to that a surge in unemployment numbers across the nation and another glitch-ridden round of the government's Paycheck Protection Program, and it is no wonder that bankers, economists, policy experts and even billionaire investor and entrepreneur Mark Cuban are throwing out ideas for emergency credit programs in a time of financial crisis.

Exactly which suggestions might stick remains to be seen, but there are several to ponder.

One of first ideas to emerge in this crisis came from the economist Arnold Kling, who outlined his idea for a nationwide credit line in a March 22 blog post. Citing a liquidity crisis, Kling suggests banks add a low-interest line of credit, backed by the Federal Reserve, to every personal and business bank account in the country.

"We need outside-in liquidity," Kling wrote. "We should guarantee liquidity for the nonfinancial sector and trust that this will take care of the banks, rather than try to do it the other way around."

Those who need it would be "temporarily strapped individuals and businesses who expect to get back on their feet once things return to normal," Kling said. Those who do not need it will not use it, he said.

But the economist G. Michael Moebs, of Moebs Services, says the Fed does not need to be involved at all. According to Moebs, there are $46.1 billion in unused overdraft limits that could be tapped immediately instead of waiting on the government to send relief checks to individuals and coordinate financial aid programs like the PPP for workers or Main Street Lending Program for businesses.

So what's needed? A decrease in overdraft fees — either a temporary suspension of the overdraft fee to zero or cutting the price in half to somewhere around $15 per overdraft, Moebs said. Doing so would significantly boost banks' fee income, but banks would have to get used to the idea of unsecured credit, he said.

"Unsecured credit is not very well understood ... but it can be very profitable if both the price and supply of it is done correctly," Moebs said. "Any [overdraft fee] of $20 or greater is wrong and [overdraft] limits of $500 for everybody is wrong."

Fueling more recent brainstorming sessions is the paycheck program run by the Small Business Administration, which offers businesses with 500 or fewer employees loans of up to $10 million that can be forgiven if borrowers spend the funds on payroll and other necessities. Critics say it is inefficient, ill-structured for the smallest businesses and hard to access. On Monday, the day that the second round of funding became available, many banks had trouble filing loan applications for clients.

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Cuban, a small-business expert, is pitching an alternative to PPP. The owner of the Dallas Mavericks basketball team proposes a special overdraft protection program for small businesses in which banks work with the customers they know to determine how much to lend so that businesses can cover expenses.

Like Kling's idea, Cuban's program would be backed by the Fed.

"The things that you could spend money on — rent, utilities, basic overhead, and payroll and affiliated payroll costs — those things could be overdrafted," Cuban said on a recent episode of the "Banking with Interest" podcast from Promontory Interfinancial Network.

The consumer finance team at the Pew Charitable Trusts has studied issues related to overdrafts for years.

The nonprofit organization's research shows that traditional overdraft programs that charge fees — as much as $35 per overdraft — tend to function as costly, inefficient credit, especially for customers who use it as a way to borrow small amounts of money. But the idea of establishing formal rules for banks to offer small lines of credit and small installment loans is much more promising, according to Pew senior officer Alex Horowitz.

So far, just one major bank in the country — U.S. Bancorp in Minneapolis — offers a small installment loan program, Horowitz said. Customers have three months, not three days, to repay the loan, he said.

More widespread creativity around overdrafts — or at least some framework that would detail exactly how small-dollar loan programs should work — might be on the way. Earlier this month, as the pandemic continued to stall the economy, a group of regulators issued a joint statement encouraging banks and other lenders to make small-dollar loans. The Office of the Comptroller of the Currency issued guidance on the subject in 2018, but the other agencies — the Fed, the Federal Deposit Insurance Corp., the National Credit Union Administration and the Consumer Financial Protection Bureau — have not yet done so, and that leaves some banks hesitant to start offering such loans.

"With some guidance from the regulators, banks could be more flexible in how they determine who qualifies for a line of credit, whether it's an overdraft line of credit or a small line of credit that's not tied to overdraft," Horowitz said. "It's the same thing with small installment loans. There's no reason a customer needs a prime credit score to get a $400 loan. We're not talking about lending to people they don't know. We're talking about lending to people who are their customers."

Castilla said something has to give, especially when federal relief programs like PPP dry up again and certain businesses continue to need quick access to small-dollar loans.

"I think there's going to have to be something," Castilla said. "I just don't know what it will look like."

CORPORATE GOVERNANCE

# Few fireworks at Wells Fargo's first annual meeting under Scharf

**By Kevin Wack**
April 28, 2020

Wells Fargo's first annual meeting under CEO Charlie Scharf was a much tamer affair than its protest-filled gatherings of recent years.

The meeting, which was held online Tuesday, offered an initial opportunity for shareholders to appraise Scharf's vision for the company, which has been plagued by scandal in recent years. Their votes largely affirmed the course he has set over the last six months.

Every member of Wells Fargo's board of directors who was up re-election, including Scharf, received at least 96% of the vote, and a nonbinding vote on the compensation awarded last year to top executives received 92% approval, according to preliminary tallies.

Wells Fargo's shareholders also rejected three proposals — including one related to pay disparities by race and gender — that drew opposition from the company's board.

The bank's last three annual meetings — held in Florida, Iowa and Texas — were the sites of high-profile protests by the bank's critics. This year, Wells adopted the virtual format in response to the COVID-19 pandemic, which eliminated the possibility that protesters would interrupt the proceedings.

The vote results showed greater shareholder satisfaction with the company's direction. Three years ago, when the bank's sales practices scandal was still fresh, 10 of the company's board members received less than 76% of the vote. All 10 of them are now gone.

The most recent directors to depart were James Quigley and Chair Elizabeth "Betsy" Duke, both of whom resigned last month in advance of a congressional hearing where they faced criticism for allegedly failing to provide proper oversight of the bank's management.

"You can be certain that we are an active and engaged board," the recently elected board chair, Charles "Chuck" Noski, promised Tuesday. "We believe we have the right management team in place, and we are headed in the right direction."

The hiring of Scharf, who arrived in October, marked a new chapter for a bank that long made key hires mostly from within. He has sought to change a culture in the bank's executive ranks that was blamed for the avalanche of scandals that have hobbled the company.

Scharf, a former CEO at Bank of New York Mellon and Visa, vowed Tuesday to focus on execution and accountability, and to move past the need for consensus. In the past, Wells Fargo's top leaders often failed to hold people's feet to the fire, according to critics.

"We will have a different level of management discipline than we've had in the past," Scharf said Tuesday. "We will judge ourselves based upon our outcomes, not our words."

Scharf did face pointed questions Tuesday about the bank's response to the pandemic.

Some critics of the bank have argued recently that Wells Fargo initially dragged its feet on the transition to telework, and that the firm continues to require certain employees to report to worksites without a strong rationale for doing so.

Alex Ross, who works for Wells Fargo at

an administrative office in Minneapolis, said Monday that he is still required to go to the office even though he communicates via Skype with managers who are working from home.

"It's time for the workers to be heard," said Ross, who is a member of the Committee for Better Banks, which is seeking to organize employees at Wells Fargo and other banks.

In response to concerns about the risk to employees who still must report to work, Scharf said Tuesday that the company is using social distancing, enhanced cleaning programs and staggered schedules. He also noted that approximately two-thirds of the bank's workforce is enabled to work remotely.

Earlier in the meeting, Wells Fargo shareholders expressed satisfaction with the pay awarded to Scharf and other top executives last year.

Scharf received $23 million in total compensation in 2019. Chief Financial Officer John Shrewsberry, consumer banking head Mary Mack and commercial banking head Perry Pelos all received between $8 million and $8.5 million.

Meanwhile, shareholders rejected a proposal from the New York state employee pension fund, which sought to require Wells Fargo to disclose information about the compensation of lower-ranking employees who receive incentive-based pay. That proposal garnered approximately 23% of the vote, according to the company's preliminary tally.

Another proposal would have required Wells Fargo to disclose its median pay gap for women and minority employees around the globe. Wells has said that its female employees in the U.S. earn more than 99% of what men in similar jobs receive, but activists want the San Francisco bank to follow the example set by Citigroup, which reports its gender pay gap on an unadjusted basis.

On Tuesday, the pay gap disclosure proposal got about 9% of the shareholder vote, according to the preliminary count.

Scharf said Tuesday that median pay gaps for women and minorities at Wells Fargo are higher than they should be.

"We do have a strong record of recruiting, promoting and rewarding gender and racially, ethnically diverse employees at all levels," he said. "But we know that we need to continue to advance those efforts at the more senior levels of the company."

DIGITAL BANKING

# Digital banking is surging during the pandemic. Will it last?

**By Penny Crosman**
April 27, 2020

Consumers' use of mobile and online banking has skyrocketed during the coronavirus pandemic as banks have limited in-person visits to appointments or drive-through service, or completely closed branches.

As of April 5, 30% of consumers surveyed by J.D. Power were using their mobile banking app more, and 35% were using online banking more, than they were pre-coronavirus.

The trend was expected, but those numbers still are eye-catching. They also raise two questions: Is the trend uniform across all asset classes? (No.) And will this behavior continue after the health emergency is over? (Maybe.)

Bankers in the trenches confirm the big increases in digital banking use.

BBVA said its mobile banking logins have hit record highs at its U.S. unit.

"In the first three weeks of April, we had 16% more logins than March for the same time period," said Jose Luis Elechiguerra, head of business development for BBVA USA. The average number of customer logins grew from eight to nine in the three-week period. Online banking logins in the first three weeks of April grew 40% compared with the same period in March, and average logins per user rose from 7 to 8.6.

"Online has been an instrumental channel to support our small-business customers — and in particular the process we put into place for the online Paycheck Protection Program portal, which we set up in record time," Elechiguerra said.

J.D. Power has been conducting a weekly pulse survey of 1,900 people across America to see how the coronavirus is changing people's behaviors in banking.

Among the four largest banks (Bank of America, JPMorgan Chase, Citigroup and Wells Fargo), use of mobile banking has increased from 63% of customers on average in 2019 to 72% so far in 2020, the research firm said.

"We are seeing a lot of engagement in our digital channels," said Ben Soccorsy, head of digital payments in Wells Fargo's virtual channels unit.

Its use was on the rise even before most Americans began sheltering in place. Wells Fargo had 30.9 million active digital customers at Feb. 29, the latest available figure. That was up 2% from three months earlier and 3% from a year earlier. The number of active mobile banking users grew 1% from the end of November and 6% from the end of February 2019.

Mobile check deposits have soared. In March, the dollar volume for mobile check deposit was up 50% over the month before. The number of checks deposited through a smartphone rose 40%.

"That shows significant behavioral shift," Soccorsy said. "Behaviors are in a state of flux as the world is shifting under people's feet. But I think we are seeing a mix of increasing engagement with existing customers, and customers who have historically not used something like mobile check deposit trying it in response to the changing availability of their branch options."

Like other banks, Wells Fargo has made some branches open by appointment only and others drive-through only, depending on local shelter-in-place restrictions.

Some of the increase in digital banking adoption is people using mobile banking for the first time, according to J.D. Power's research. Six percent of people surveyed said that since the coronavirus pandemic started, they were using mobile banking for the first time; 4% said the same of online banking.

"Out of necessity, folks are having to change their behavior around their financial lives," Soccorsy said. "And, it's not just financial services. Everyone's having to try things in new and different ways across everything they do."

### Big-bank advantage widens

The pandemic is also accelerating the trend of large banks gaining digital customers at a faster rate than smaller and midsize banks.

"The big banks are setting the pace," said Bob Neuhaus, vice president of global financial services at J.D. Power.

BofA, Capital One Financial, Citi, BBVA, JPMorgan and Wells rank highest in digital engagement in J.D. Power's recent studies. The firm considers consumers using four or more digital tools, such as alerts, person-to-person payments and bill pay, to be highly digitally engaged.

"I liken this to a marathon where they put the fastest runners at the front of the race at the start, so this is where they were positioned going into this marathon, and that enables them to have their customers be more self-service and put less pressure on the contact centers," Neuhaus said.

More highly digitally engaged customers are also more satisfied than their branch-using counterparts, the research showed.

Before the pandemic, about 10% of U.S. retail banking customers were branch-only, according to J.D. Power's latest retail banking satisfaction study.

But this varied by bank size. Among the largest banks, 8% of customers said they were branch-only; at midsize banks, 15% of customers said this. Among those who identify as branch-only users, 68% are baby boomers or "pre-boomers" (people born before 1946).

The midsize banks have fallen behind due to the fact that they tend to have an older customer population and lack the large budgets of the top-tier banks, Neuhaus said. Midsize banks also tend to rely on outside technology vendors and have less control over their technology.

"They're definitely transforming," Neuhaus said. "They've been transforming at a slower pace than the big banks."

Neuhaus said one thing big banks excel at is helping consumers understand mobile apps and what they do.

"If you're trying to get people to use more features and really get the full benefit of the app, there's a level of communication and engagement that needs to occur that goes beyond the pure self-service model," he said.

Help with setting up alerts properly or using financial planning tools are two examples.

"When customers were engaging both with the branch and digital channels, that gave banks an opportunity to coach their customers on the use of the app in the branch," Neuhaus said. "When you take the branch out of the equation, consumers are more left on their own."

J.D. Power has been tracking other impacts of the coronavirus pandemic. About 20% of consumers are reporting long wait times on the phone, and 9% are reporting that ATMs are out of cash.

"That's high if you're out and you're stressed and trying to run your errands fast and get home," Neuhaus observed. "You have a one in 10 chance of not getting cash when you want it. That's a stress point."

Downed websites have risen from 9% to 15% during the pandemic.

Because of website outages, long hold times and lack of knowledge about how to use digital banking tools, 14% of consumers are very concerned and 42% are somewhat concerned about being able to continue to conduct their banking activities during the coronavirus crisis.

"A majority of consumers are concerned about conducting their banking business," Neuhaus said.

### What will the new normal look like?

J.D. Power has also asked customers how they expect to behave when the crisis subsides.

Some people are saying they plan to go back to their usual habits. Eleven percent plan to visit the branch again, and less than 20% plan to use mobile banking more than they did pre-crisis.

"Forty-six percent said they'd go back to how they behaved before, which means that more than half are changing the way they interact with their banks," Neuhaus said.

Elechiguerra agreed.

"Typically when our customers learn and adapt to the convenience of checking balances and conduct transactions by swiping on their smartphones, they become less intensive on nondigital channels and see the advantage of not commuting to a branch or not to wait on the phone," he said. "We believe that the future of banking is to transform into a more convenient and frictionless bank to help our customers reach their goals and, while branches will always be an important channel to have available for our customers, digital channels will play a fundamental role in this transformation."

Soccorsy concurred. "My own view is that this is going to be an accelerant to the digital banking trend," he said. "I think customers will be delighted with the convenience of doing many of the things that they were doing in other channels through digital banking, as a result of this crisis. You may see customers unwilling to go back to the way things were. This is the kind of disruptive event that changes behaviors in many ways. But we haven't seen anything like this in our lifetimes, so it's going to play out in front of our eyes."

ATMs

# Pandemic pushes customers to give video banking a go

**By Miriam Cross**

April 28, 2020

Video banking has gone from novelty to near necessity in the age of social distancing, and financial institutions are stepping up their mobile and ATM offerings as well as adding on-screen agents.

The video banking provider POPi/o, whose platform allows banks to connect with their customers on a screen set up in a branch or via their computers or smartphones, says its businsess has surged. Calls between an institution and a customer that result in a transaction or service have more than tripled since the coronavirus pandemic started, to about 25,000 per month. The company expects to hit 100,000 calls in June.

NCR, a producer of what it calls interactive teller machines, said that it has observed an increase in use of its devices as well. For example, clients are looking to add to their stable of video teller machines or turning on the video capabilities rather than operating the machine as a regular ATM.

Pioneer Federal Credit Union, based in Mountain Home, Idaho, uses the POPi/o platform for more complex member service queries and NCR's video-assisted ATMs for withdrawals and deposits in the drive-through. The $500 million-asset financial institution has seen heightened activity on both.

Over POPi/o, video calls to Pioneer have jumped from an average of 30 a day to 130 a day. Meanwhile, transaction volume on the credit union's video-enabled ATMs rose to 17,000 transactions in March from previous monthly levels of around 11,000 transactions.

Pioneer is only purchasing video teller machines these days, rather than standard ATMs. Tracey Miller, senior vice president of operations, said both video platforms enable the institution to reach more customers and extend its hours, with fewer employees needed on-site.

Although summoning a customer service agent over video on an in-branch monitor, through an ATM screen or on a personal device is not the same as interacting with a bank employee in person, financial institutions that use video technology say it can come close. And as the coronavirus pandemic forces branches to close their lobbies or limit their hours, video banking is providing a flexible alternative for banks that want to offer a full complement of services — from servicing accounts to facilitating loans — without losing the personal touch.

The POPi/o platform, for example, enables financial institutions to replicate many tasks they would normally do in person, short of dispensing cash and coins, according to the company.

Say customers want to apply for a loan through POPi/o's smartphone app: They can examine the application with their video agent through a shared screen, snap photos of relevant documents with their phone's camera, and sign the completed application onscreen with their finger. If they have a question they do not want passersby to overhear, they can shoot it over in the app's messaging system.

Union Bank in Lake Odessa, Mich., rolled out video services through POPi/o in January to smooth out the process of opening accounts and to hold on to young clients who were heading off to college.

More recently, the $200 million-asset bank has found value in facilitating loans over the platform.

"The nice thing about video banking is there are workflows," said Stephanie Brummette, who manages the virtual branch team at Union Bank. "I can see what the customer sees and tell them 'You're at the step where you need to sign' or 'You're at the step where you need to accept electronic consent.'"

It is also convenient for the bank's customers.

"We have people that call in to do wire transfers when they are still in bed," Brummette said.

The video teller machines created by NCR allow bank customers to speak with a live teller for help withdrawing or depositing cash, depositing checks, ordering new checks and making account inquiries. NCR currently supplies its machines to more than 500 customers.

Video is proving to be a valuable medium for other initiatives as well. Royal Bank of Canada launched its MyAdvisor service in Canada in 2017, which lets retail customers connect with financial advisers over the phone, over video or in person. Before the pandemic, the video option had the least traction, but it became far more popular as opportunities for in-person meetings receded.

"I think it has to do with video adoption more broadly," said Michael Walker, head of mutual funds distribution and financial planning at RBC. "All of us are trying to use FaceTime and other applications on a personal basis to talk with friends and family."

The popularity of video apps among all ages also means that video banking does not discriminate based on age.

"Grandma and grandpa are just as used to using Skype and Zoom and FaceTime to talk to grandchildren, as are the millennial generation trying to find a date," said Gene Pranger, CEO and founder of POPi/o.

### How banks are coping

To meet the higher demand for video calls, banks are padding their rosters of video agents, typically by reallocating the employees they already have.

Pranger said the number of POPi/o's seat licenses, or number of agents using its system, has tripled over the past five weeks, and his company's client count jumped from 52 clients at the beginning of March to 84 as of April 21.

At Pioneer, branch staffers are trained to run the video teller machines, and a few have hopped onto the POPi/o platform as well.

"Lucky for us, we believed that was the best way, because we gave some touch-up training and moved staff onto these platforms very quickly," Miller said.

At Union Bank, which has six branches, the contact center fields both phone and video calls on the POPi/o platform. The staff of five grew to eight (including a lender to process Paycheck Protection Program loans) once the state issued a stay-at-home order and the bank closed its lobbies. Shuffling employees to the contact center meant the bank could avoid layoffs.

As comfortable as customers may be conversing with an agent on screen — even from their beds — agents new to video may not feel the same way. "The biggest issue we sometimes get is people are not used to being on camera and don't feel comfortable with this type of interaction," Pranger said. "But we find they get over that initial hurdle about a minute in."

### Video banking of the future

Now that financial institutions are leaning more on video, some are thinking about the next steps as the crisis continues, as well as after it subsides.

At Union Bank, Chief Operating Officer Sue Dahms and her team seem to have mastered the deposit side of video banking. Their next step is to improve their ability to service loans through a screen.

"We want to eventually be fully functioning on the video side," Dahms said. "This will change how people do their banking — they already realize they don't have to come in to a bank and can do things online or remotely."

RBC is planning to equip more advisers with video capabilities, after finding that this medium is, in some ways, superior to the phone for financial planning conversations.

"When you're doing this interaction face-to-face, you can see the client's body language," said Walker. "Video allows you to replicate that in-person experience and adds to the richness of the discussion overall."

Extraco Banks in Temple, Tex., several years ago began deploying video teller machines from Nautilus Hyosung America that the $1.5 billion-asset bank dubs "Extrabankers." They are mostly located inside the now-closed branches.

But this experience has highlighted the value of their outdoor units, said Misti Mostiller, executive vice president and director of consumer banking and enterprise innovation at Extraco. Executives plan to set up more this year, ideally by the fourth quarter.

Extraco may explore other forms of video banking after it expands its outdoor footprint.

"One thing the pandemic has taught us is we can always work on being more agile," Mostiller said.

GSEs

# Cost of GSEs' mortgage market support may be too steep for lenders

**By Hannah Lang**
April 28, 2020

WASHINGTON — Lenders welcomed the Federal Housing Finance Agency's recent announcement that Fannie Mae and Freddie Mac can buy loans already in forbearance, but that relief comes with a catch.

Originators are now weighing whether the plan makes sense for them after learning that Fannie and Freddie will charge a fee for taking on more risk. The fee, known as a loan-level price adjustment, is 5% of the unpaid principal balance for first-time homebuyers and 7% for all others.

The new cost adjustment, which was developed in consultation with the FHFA, is yet another challenge for lenders as the government encourages forbearance for borrowers coping with the coronavirus pandemic.

Normally, borrowers would be on the hook for additional fees tacked onto a loan. But in this case, since loans in forbearance will have already closed, the lender is responsible for the loan-level price adjustment. The fees Fannie and Freddie have set could be too high to provide any relief to lenders at all.

"FHFA is trying to have it both ways," said Laurence Platt, a partner at Mayer Brown. Backing loans during a pandemic is a public good, he said, but Fannie and Freddie are still in a fragile state more than 11 years after the government seized them during the 2008 mortgage crisis.

"On one hand, they're trying to act in line with their public purpose in buying loans subject to forbearance," Platt said. "On the other hand, they're trying to act like a company in conservatorship by pricing those loans in a way that makes it unattractive."

FHFA Director Mark Calabria has made clear his view of how the government-sponsored enterprises should behave while they are in conservatorship, and has said that he doesn't believe it is their responsibility to assist mortgage companies facing a liquidity crunch due to the coronavirus pandemic.

Instead, he is focused on building up the capital cushions at Fannie and Freddie, which pale in comparison to financial companies of similar size. Right now, the companies are permitted to hold a combined $45 billion in capital, and can access a credit line at the Treasury Department if their own capital is depleted.

Buying loans in forbearance could very well set Fannie and Freddie up for losses, which is likely the reason the GSEs are imposing the high loan-level price adjustment.

"It's definitely related to the heightened level of risk that they're taking by purchasing these loans, and that's in the first place why their charter does not allow it," said David Merkur, an attorney in Greenspoon Marder's Financial Services practice group.

"There is a heightened level of risk for them that these loans will either maintain a delinquent status or trend into a delinquent status from forbearance," he said.

The FHFA announced on April 22 its new policy allowing the GSEs to back loans in forbearance. Fannie and Freddie outlined the loan-level price adjustments on their websites shortly thereafter.

The GSEs said the fees were priced as such to "address the risk of these temporary measures" and to protect taxpayers.

Balancing the safety and soundness of Fannie and Freddie while at the same time fulfilling the companies' original purposes of expanding the secondary mortgage market is no easy feat, particularly in the midst of a global pandemic. Lenders of all sizes are urging the FHFA to focus on the latter.

"By imposing these loan-level pricing adjustments, it undermines the public purpose, but again, it furthers that conservatorship purpose," said Platt. "And so the question is in a time of crisis, which of those two purposes should prevail?"

Additional fees or charges associated with selling loans to the secondary market make it more challenging for lenders to ensure that they have ample liquidity to continue lending during a downturn, said Ann Kossachev, director of regulatory affairs at the National Association of Federally-Insured Credit Unions.

"We certainly understand that Fannie and Freddie have their own capital constraints and are facing challenges as a result of the pandemic just like everyone else," she said. "But when we see policy decisions like this from the regulators, that makes it a little harder, especially in an economic crisis."

Although the fees attached to loans in forbearance likely reflect the FHFA's estimate of default as well as the possibility of a distressed housing market going forward, the originators' price tag for Fannie and Freddie to purchase these mortgages is still "hefty," JPMorgan Chase analysts wrote in an April 24 note.

"A 7-point LLPA charge would effectively erase any gain on sale the originators expect on new production loans," they said. "With the prospect of losses, we believe lenders would create credit overlays to limit this outcome."

The FHFA's policy allowing Fannie and Freddie to purchase loans in forbearance aims to address concerns that the pandemic crisis will lead to severe mortgage market contraction. Before the agency's announcement, lenders tightened some of their standards as they braced for skipped mortgage payments and the prospect of no GSE backing.

"If a lender can't make any money making the loan, then they're not going to make the loans," said Platt. "So at the end of the day, it depends on whether the consequence of these loan-level price adjustments is to make origination a nonprofit business."

The Mortgage Bankers Association implored the FHFA to adjust its policy to ensure that it wouldn't "constrain credit availability, noting that the agency's pricing regime could "perpetuate … more restrictive credit terms."

"Lenders have already been forced to increase costs and tighten underwriting requirements to account for situations in which they cannot sell loans due to borrowers availing themselves of the forbearance options that FHFA introduced," MBA President and CEO Robert Broeksmit said in a statement.

Because lenders won't be able to pass on the costs of the loan-level price adjustment to borrowers, they will have to make up those costs elsewhere.

"That's going to mean it's going to be more expensive for borrowers to get access to credit," Kossachev said. "And for lenders to make those loans, they're going to potentially need to increase rates across all loans to make up the difference for those loans that have entered into forbearance before delivery."

The new fees could end up being cost-prohibitive for many lenders, agreed Merkur.

"The increased percentages … [are] going to be a large cost that is definitely going to cut into the intended assistance to banks, lenders and servicers alike," he said.

Still, what is important now is that there is at least a mechanism in place for lenders to be able to deliver loans in forbearance to Fannie and Freddie, and the details could get ironed out later on, said Dan Sogorka, the president and CEO of Sagent, a mortgage servicing fintech.

"The hot topic of the day is really finding the balance between affordability and the LLPAs for homeowners in forbearance, and that's a risk-reward scenario," he said. "It's really hard to get a regulation perfect, especially as data is occurring in real time."

Meanwhile, with another mortgage payment due date just around the corner on May 1, the industry is bracing itself for yet another bump in forbearance requests. It remains to be seen if lenders have the capacity to continue lending at the same time they are paying extra costs for loans in forbearance.

"They might have to make some difficult decisions in how they would lend, which is not something that they want to do right now and during this difficult time," said Kossachev. "It would be great to be able to offer access to credit to as many members as possible, but this is going to make it harder for sure."

PAYCHECK PROTECTION PROGRAM

# Coronavirus loan program approves more than $52 billion in relief

**By Bloomberg News**
April 29, 2020

The Trump administration said it's approved more than $52 billion in loan requests for small businesses so far in the relaunch of a coronavirus relief program, even as lenders said they've struggled to submit applications and advocates worry that funds will run out before many mom-and-pop businesses get help.

The U.S. Small Business Administration said it's processed almost 476,000 loan applications from almost 5,200 lenders as of 1 p.m. New York time Tuesday. The Paycheck Protection Program offers loans of as much as $10 million meant to keep workers at small businesses employed amid state stay-at-home orders.

President Trump said there were twice as many lenders accessing the SBA's system in the first 24 hours after the program's restart than on any day of the initial round of funding. He said the agency also processed 30% more applications than on any previous day, and in smaller amounts.

"Demand is extraordinarily high," Trump said at a White House event featuring a coffee shop owner, an optometrist and others from small businesses that have received funding under the program.

The initiative restarted Monday with an additional $320 billion that Congress approved last week, after the initial $349 billion ran out on April 16 in just 13 days. At the current pace of approvals, the additional funding will be exhausted in a matter of days.

But the relaunch has been rocky, with lenders reporting they can't access the SBA's system amid a flood of applications. The program allows loans to become grants if proceeds are spent to maintain payrolls and for certain expenses for two months.

The SBA on Tuesday told lenders they could not use robotic systems to help submit applications. With that measure, it said, the system "will be more reliable, accessible, and equitable for all small businesses."

Treasury Secretary Steven Mnuchin said on Fox Business that SBA teams worked through the night to address issues, but lending groups said access was still spotty on Tuesday. Paul Merski of the Independent Community Bankers of America compared it to trying to fix bad plumbing by replacing some washers and faucets.

"The bottom line is the system just cannot handle volume," Merski said. "It's going to be ongoing frustration and hopefully they can make improvements, but the system is the system."

During the first round, the SBA guaranteed 1.66 million loans totaling $342.3 billion, with an average loan size of $206,000, according to an agency report. The SBA said the average loan so far in the second round is $111,000, and that the $30 billion Congress said aside for small lenders to dole out has almost been exhausted.

Reports of large public companies and big chains getting loans have sparked outrage. Mnuchin announced on Tuesday that all loans of more than $2 million will be audited before they are forgiven to check the borrower's certification that "current economic uncertainty makes this loan request necessary to support the ongoing operations of the applicant." Businesses have until May 7 to return their loans without penalty.

Mnuchin said at the White House event Tuesday afternoon that the SBA has a team and will bring in additional people to review those loans. "We will make sure that these certifications were done accurately, or the loans won't be forgiven and there will be liability" criminally, he said.

Earlier Tuesday, Mnuchin told CNBC he's glad large public companies and entities including the Los Angeles Lakers are now returning their loans. More than $2 billion from the first round was declined or returned and will now be made available, SBA Administrator Jovita Carranza said in a tweet on Monday.

The SBA's rollout is drawing the attention of lawmakers. Democratic Senator Jack Reed of Rhode Island is calling for a congressional investigation and audit into how the program is being administered by banks and overseen by Treasury and the SBA. He said in a release the program has been "been plagued by problems, mismanagement, and lack of sound guidance" — and that "favored companies are winning while small businesses are being shut out."

Republican Senator Josh Hawley of Missouri also tweeted Monday that "big banks give their richest customers concierge service and they go to front of line" and that the relief legislation "does NOT authorize this special treatment by big banks for their wealthiest clients."

Senate Minority Leader Chuck Schumer said on MSNBC that Treasury and the SBA failed to give guidelines to the banks that would have pushed more of the financing toward smaller firms. Republican Sen. Martha McSally of Arizona called for more guidance on how applications should be processed to ensure independent contractors, self-employed individuals and other small enterprises get relief.

Lending groups have complained it's still unclear how the agency is processing applications, and some question whether they will be handled equally on a first-come, first-served basis.

AMERICAN BANKERS ASSOCIATION

# Industry groups form partnership to promote minority-run banks

**By Jim Dobbs**
April 29, 2020

The American Bankers Association and the National Bankers Association have formed a strategic partnership to support minority banks.

The associations said in a press release Wednesday that they will collaborate on advocacy efforts. Members of the National Bankers Association, which represents minority banks, will gain access to the American Bankers Association's training and education programs.

The American Bankers Association will also encourage its members to join the National Bankers Association as affiliate members.

The National Bankers Association, formed in 1927, lists 22 members on its website.

"We are honored to strengthen our ties with NBA at this important moment for our industry," Rob Nichols, the American Bankers Association's president and CEO, said in the release.

"This effort will be mutually beneficial to both organizations and the industry," said Kenneth Kelly, the National Bankers Association's chairman.

The partnership comes at a time when all banks are navigating a severe economic downturn imposed by the coronavirus outbreak. The Commerce Department said Wednesday that gross domestic product fell at a 4.8% annual rate in the first quarter, representing the first decline since 2014 and the steepest contraction since the financial crisis.

HOUSING MARKET

# Manhattan homebuyers rewriting the rules on deals in virus era

**By Bloomberg News**
April 28, 2020

Manhattan homebuyers were already calling the shots in deals before the coronavirus hit. Now they're more in control than ever.

Some who signed contracts before the city shut down are demanding extra price cuts as a condition of closing. Others still shopping are making lowball offers and insisting on legal protections that, in this era of uncertainty, let them back out of a purchase.

Owners truly interested in selling have little recourse to say no — a new normal that likely won't end when the pandemic eases and new listings flood the market with the economy still in turmoil.

"I don't see how it can snap back and just be the same, like a 'pardon our interruption' kind of thing," said Jonathan Miller, president of appraiser Miller Samuel Inc. "We're going to have to go through another period of price discovery."

Manhattan's real estate market had only just gained some footing after years in which sellers were clinging to prices that were out of tune with reality. Seeing purchases decline and inventory mushroom, they eventually came around, agreeing to discounts and other buyer concessions that helped make the first quarter the borough's most robust period for home sales in almost three years.

Then the pandemic hit, shuttering most businesses, outlawing in-person home showings and backing sellers into a corner.

Not long before New Yorkers were ordered to self-quarantine, Douglas Elliman Real Estate broker Monica Luque listed a one-bedroom co-op for sale on West End Avenue. Just one couple came to see the vacant unit — alone, using keys left with the doorman — then made an offer that was far lower than what the seller hoped for.

"'No way, that's insulting,'" Luque recalled her client saying. "I said, 'Well, have you seen the news?'" The owner countered once, then accepted a deal at $775,000, or 6% less than his asking price.

"You have to say to yourself, this is not a normal time, this listing cannot be marketed the normal way," said Jerry Gemignani, the Keller Williams broker who represented the buyers. "We believe it's worth 'X,' but now we're going to get a small discount on top of that."

Since March 22, bids came in at an average of 13% below what sellers sought, according to a survey of 38 New York brokers by Fritz Frigan, director of sales and leasing at Halstead.

One Manhattan condo listed at $3 million drew an offer for 30% less, the survey showed. That owner declined, but the seller of a co-op asking $3.3 million agreed to a deal at a 26% discount. The broker for another apartment said clients are saying things like "I want to buy only when I see blood on the streets."

The shutdown has emboldened buyers to seek additional price cuts even after they signed legally binding contracts.

Real estate lawyer Steven Matz said at least 15 of his clients have tried to get such reductions as a condition of proceeding with a closing. While the buyers would forfeit deposits if deals aren't completed, they're betting that owners would rather meet their demands than market their homes anew, he said.

"Many buyers think they have sellers over a barrel," said Matz, whose firm, Katz & Matz PC, handles nearly a thousand New York closings annually. "The seller can pocket the down payment, but can they resell their apartment? Good luck doing that in the next six months."

Developers of new condo towers, many facing lender deadlines to sell a certain number of units, also are throwing in perks to keep buyers from walking away, said Daniel Gershburg, a partner at Romer Debbas LLP.

Among deals he's juggling are several at Brooklyn projects where, after contracts were signed, the builders agreed to drop the final price, throw in a storage unit or offer the value of a parking space as a credit toward closing.

"The buyers' sentiment is, 'Hold on, I bought this apartment in, literally, a different world,'" Gershburg said. "Sellers are thinking, 'Oh my God, I don't want to go back into this market right now.'"

Buyers yet to sign contracts are insisting on so-called COVID clauses — language that would protect them should any coronavirus-related fallout affect the deal, Matz said. He and several other New York real estate lawyers chat twice weekly on Zoom to go over the growing list of scenarios.

One possibility is that a buyer gets a bank commitment for a mortgage but becomes unemployed before the loan is dispersed. Should the bank renege on the loan, the buyer — without the extra legal protection — would still be on the hook to complete the deal or lose their deposit, said Andrew Luftig, a partner at Chaves Perlowitz Luftig LLP.

"Sellers aren't thrilled with COVID clauses, but they realize they're going to have to give them," Matz said.

They might even protect owners. A contract rider that Luque's co-op sellers included said the agreed-upon price won't be renegotiated.

And yet, not everyone's on board. Joe Colandrea was close last month to buying a downtown Manhattan studio. The owner cut 12% off the price and offered to pay the maintenance fees through next year. But when Luftig, Colandrea's lawyer, insisted on a contract with COVID protections, the seller called the whole deal off.

Working with Douglas Elliman broker Rose Franco, he found another studio in the same building. He's now in talks with the owner, who is offering to cover the cost of any pandemic-related delays.

"It is a breath of fresh air dealing with someone much more reasonable," said Colandrea, 30, who works in software sales at Adobe Inc. "He understands the importance of a COVID clause for both the buyer and seller."

EXECUTIVE BENEFITS

# Home BancShares' chief takes pay cut

**By Paul Davis**
April 24, 2020

The leader of Home BancShares is taking a pay cut after shareholders rejected the Conway, Ark., company's compensation plan.

The $15.5 billion-asset company disclosed in a regulatory filing Friday that Johnny Allison, its chairman and CEO, voluntarily reduced his base salary by 20%, to $400,000, for the next 12 months. The change is effective on May 8.

The move comes roughly a week after shareholders, in a nonbinding vote, rejected Home's executive compensation plan. At the April 16 meeting, 62.4 million shares voted against the plan, or 18% more than the number that supported it.

"Although the say on pay vote … is advisory, the company takes this input from our shareholders very seriously," the filing said. "The compensation committee … intends to undertake an evaluation of the company's executive compensation program in light of the results of this vote."

Home also disclosed that Alex Lieblong and Robert Adcock had resigned from the board's nominating and corporate governance committee. Lieblong was the committee's chairman.

The filing did not disclose the reasons for either director's decision to step down, though both will remain on the board.

Home recently reported net income of $507,000 in the first quarter, down from $73 million a year earlier, that reflected a large loan-loss provision tied to adoption of the Current Expected Credit Losses standard and the coronavirus outbreak.

BANKTHINK

# The American payment system was ready for the coronavirus pandemic

**By Jeff Burik**
April 27, 2020

As the coronavirus pandemic unfolds, the nation has rightly lauded the bravery of health care professionals, grocery store clerks, over-the-road truckers, teachers, delivery drivers, nursing home employees and everyone else working on the front lines to save lives and keeping us all going right now. We owe a deep debt of gratitude to them all.

We also know that their employers — along with the leaders of companies not on the front lines — are worried. They worry about their workers' health and well-being. They worry about underlying weaknesses in our economic system that this pandemic has exposed. They worry about their ability to ensure that their operations and core business functions are not severely impacted by what is happening now and whatever comes next.

One thing many will not have to worry about during this current crisis, however, is their ability to maintain payment operations, especially when physical access to their bank is limited. That is because many businesses are now equipped to manage almost all financial transactions online through a reliable electronic payment system that largely did not exist during previous major economic crises.

The modern-day payment system was, over the last two decades, tailor-made for the shelter-in-place conditions many now live and work under today.

Thanks to strong leadership by the Federal Reserve and more stringent post-recession policies, the banking system overall is better prepared for the current crisis than it was, for example, for the Great Recession. For one thing, banks are more highly capitalized now than they were when the recession hit. In recent weeks, the Fed has also pumped a record amount of money into our nation's financial system to support the short-term lending needs of businesses implementing their resiliency plans.

Importantly, the Fed was also an early and powerful advocate of the electronic payment strategies that are now helping to keep money moving and businesses productive at a time when many storefronts, offices and bank branches are closed.

It's easy to forget just how much banking systems have evolved over the past two decades. Think back to Sept. 11, 2001. When planes stopped flying in the days after the attack on the World Trade Center, the nation's check-clearing network shut down as well. Why? The network depended on the dedicated air couriers to speed the transport of paper checks back to the issuing bank for clearing.

That event more than any other fueled the Fed's push in the early 2000s, via the Check Clearing for the 21st Century Act (Check 21 Act), paving the way for alternatives to paper checks and the manual processes and procedures required to produce, distribute and process them, developing solutions like remote deposit capture. In addition to reducing dependency on paper, the nation's central bank advocated for automated solutions that would speed payment processing, improve reliability and protect against fraud.

That is when banks stepped up to take a fresh look at the payment system, leveraging current solutions like ACH payments and card networks, and kicked electronic payment innovations into high gear.

Your business, whether a large corporation or a small business, very likely depends on many of these products and services. For example, you may be familiar with remote deposit, a technology developed so that a company can scan, digitize and deposit an electronic version of a paper check without leaving its premises.

Or you may be in a business that opts instead for integrated receivables and payables solutions, a combination of check, electronic and card-based systems to make and receive payments that can be managed from virtually anywhere while pulling in the necessary reconciliation data to maintain accurate accounting records.

Along with e-commerce, electronic asset management, videoconferencing and other game-changing technological developments, today's payment systems make it possible for workers from across a large swath of the economy to pack up their traditional offices and work safely and productively from home.

They're robust enough to operate smoothly, even in the midst of a pandemic. And they're agile enough to help you get back to business-as-usual once these uncertain days are past. Perhaps most important, they give you one less thing to worry about.

*Jeff Burik is executive vice president of commercial payments at Commerce Bank.*` ❑

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