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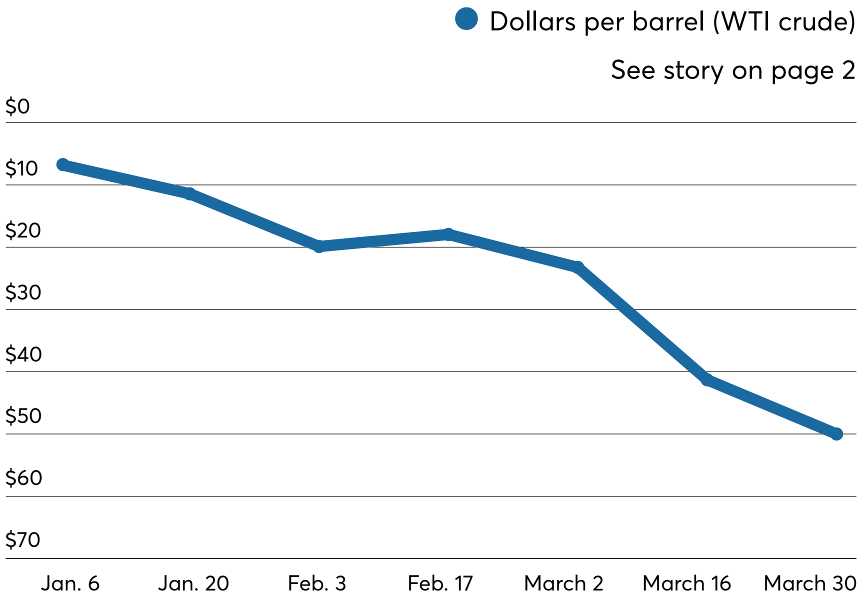
Energy crisis

Oil prices have plunged nearly 70% since early January



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dailybriefing

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Weak demand for oil and gas, brought on by the economic fallout of the coronavirus outbreak, has raised concerns of energy firms missing loan payments or even going bankrupt. Here's how banks and regulators are trying to get ahead of potential problems. (See chart above.) **Page 2**

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COMMERCIAL LENDING

High anxiety among energy lenders as oil prices plummet

By Jon Prior

March 31, 2020

Every 12 or 18 months, Texas banks overseen by the state's banking commissioner undergo examinations in which they are required to disclose problem loans in the their energy portfolios.

Now, with oil prices in free fall as nationwide stay-at-home orders have sharply curtailed demand for fuel, the Texas Department of Banking is asking banks it oversees to start submitting reports on problem oil and gas loans as frequently as every quarter. Banks with particularly heavy exposure to the oil and gas sectors — roughly 15% of the state's 224 state-chartered banks — will be monitored even more closely.

With the value of the collateral — the oil and the gas in the ground — declining so quickly, the concern among regulators is that defaults could start mounting long before banks undergo regularly scheduled exams.

"We are working with our federal counterparts to reach out and contact our oil-heavy banks," Deputy Banking Commissioner Kurt Purdom said in an interview. "We plan to have one of our review examiners assigned to reach out to each one of our oil and gas banks and start gathering quarterly data from them on the number of problem credits they have."

And it's not just energy loans that are at risk. The oil and gas sectors drive the economies in many parts of Texas, particularly smaller cities in West Texas, and examiners want to know how the sudden slowdown brought on by the coronavirus is affecting other parts of banks' loan portfolios.

"If you talk to someone in Odessa and Midland, they would tell you every loan in the bank is tied to oil and gas," Purdom said.

The increased scrutiny of energy loans comes as banks and their regulators are preparing for a wave of missed payments from freshly laid-off workers and revenue-starved businesses across the U.S.

Executives for energy banks have said that they had been exiting riskier parts of the oil and gas business since the last downturn about five years ago, but the suddenness of the drop in prices over the past month will cause more companies to struggle to meet their debt payments.

Paul Murphy, the CEO of the $17.7 billion-asset Cadence Bank in Atlanta, said energy lenders that usually do annual reviews of their oil and gas loans are keeping a closer eye internally.

"We're doing them weekly," Murphy said. "Everybody who has anything to do with it is certainly looking at things more frequently than they ever have."

Nearly 11%, or $1.4 billion, of Cadence's total loans are tied to the energy industry as of the end of last year, down from more than 15% in 2015, according to its financial filings.

"It's stressful," Murphy said. "Over a longer period of time it's a good way to loan money, but at these prices it's a little different."

The price of a barrel of WTI crude has fallen by roughly half since early March when local governments in the U.S. began closing schools and businesses and ordering people to stay home. Prices bottomed out at $20 per barrel on Monday, the lowest in 18 years. In past market shocks, prices have typically bottomed out at around $23 per barrel, according to a March 9 research note from Goldman Sachs.

On top of weakening demand, oil-producing giants Saudi Arabia and Russia are in the midst of a price war over crude and have refused to cut production, leading to a worldwide glut.

"It's hard to believe that we're just five weeks into this and it's had a pretty dramatic impact," said Kurt Spieler, the chief investment officer of the $22.5 billion-asset First National Bank of Omaha. "The volatility around the stock market and energy prices has been extreme because no one knows the outcome."

Spieler's team exited a stock position in the Houston-based oil and gas explorer Occidental Petroleum because of worries about its debt load, he said.

Analysts at Bank of America said in a March 27 research note that the price of oil could fall as low $15 per barrel.

Jeff Nichols, partner at Haynes Boone and co-chair of the firm's energy practice group, said some pipeline operators are telling drillers not to send any more oil their way in order to keep supply down. But this means some producers are getting nothing for the oil they have recently pulled out of the ground and are starting to close rigs en masse. The industry is also running out of space to store what supply hasn't been sold.

There were about 50 bankruptcies in the oil industry last year, according to a recent report from Haynes Boone. That number may even climb beyond what was seen in the last downturn because prices were falling from a higher peak than they are now, Nichols said. Even for lenders that reduced their exposure could see similar losses to the last collapse if the rash of borrowers going bust is worse.

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"There could be hundreds," Nichols said of potential bankruptcies. "If the price stays at $20 there's very few of them that could survive."

One source of relief, to both oil firms and their bank lenders, could come from private equity investors, who pulled back from injecting capital into the industry last year as production and prices boomed.

A renewed drop in prices could mean an opportunity for some investors to provide capital where they see an opportunity even if banks can't. Capital injections from private equity have rescued oil and gas companies struggling with debt payments in the past and could do so again, industry experts say.

"The last time we had oil prices below $30 the market was surprised about the access to private dollars and debt," First National's Spieler said. "Will you have the same access to stay afloat? We've heard some anecdotes of private equity looking to get involved."

Spieler said the best estimate of demand returning and prices rising would be in two to three quarters. For now, energy lenders have the capital cushions to withstand the downturn until Americans are comfortable driving and flying again.

Cadence's Murphy agreed. "There is a high level of stress in that part of the portfolio," he said, "but it's manageable."

CORONAVIRUS

Calls to cease non-coronavirus rulemaking grow louder

By Brendan Pedersen
March 31, 2020

WASHINGTON — Community bankers are calling for a six-month halt in rulemaking except for regulations dealing with the coronavirus outbreak.

In a March 30 letter, Independent Community Bankers of America CEO Rebeca Romero Rainey urged the heads of several financial regulators to suspend non-COVID-19-related rules to allow banks to focus on the fallout from the pandemic.

"Combating the COVID-19 crisis demands the full attention and all available resources from the public, from state, local, and federal government entities, as well as all industries, including the vital financial services industry," Rainey wrote to seven agencies. "Not only are financial institutions impacted, but the voices of those institutions are also engaged in this all hands-on deck reality."

"The resources required to effectively respond and advocate positions during the rulemaking process have understandably shifted to responding to this crisis," Rainey added.

The trade group joined community groups and lawmakers who have made similar requests.

Last week, the National Community Reinvestment Coalition and National Alliance of Community Economic Development Associations separately called on the Federal Deposit Insurance Corp. and Office of the Comptroller of the Currency to suspend their rulemaking process for proposed reforms to the Community Reinvestment Act. Public comments for that proposal are due April 8.

"This grave pandemic demands a comprehensive and all-encompassing response. The health and wellbeing of our fellow citizens and residents are at stake," the NCRC wrote. "The undersigned organizations must immediately drop all policy-related matters and help their clients and communities with basic survival."

In its letter, the economic development group alliance wrote that "as our networks begin to address the dire public health and economic situations playing out in our communities nationwide, we felt an urgent need to double down on our request that you immediately suspend the rulemaking process."

Similarly, the California Reinvestment Coalition is preparing to submit a letter to the OCC and FDIC signed by its members arguing that enforcing the April 8 deadline for comments on the CRA proposal "will not at all reflect the unknown needs of low and moderate income communities in a new post COVID-19 America."

"Accordingly, the public record on which you will be basing your decisions will be incomplete and inadequate," the CRC letter says.

Earlier in March, Sen. Sherrod Brown, D-Ohio, the ranking member on the Banking Committee, said comment periods closing after March 1 should be suspended or extended by at least 45 days. "In light of this crisis, we urge you to implement an immediate moratorium on rulemakings not related to the virus response or other imminent health and safety concerns," Brown wrote.

Rainey's letter cited several pending rulemakings, including CRA reform as well as a plan by the FDIC to reform restrictions on brokered deposits.

Community advocates have pointed to a number of regulators that quickly chose to suspend significant rulemakings, including the Federal Housing Finance Agency's indicating recently that it will likely delay plans to create a post-conservatorship risk-based capital system for the government-sponsored enterprises.

But so far, the agencies have made no indication they will allow for a broad suspension of rulemaking, including on CRA reform.

"The OCC is operating and conducting normal business including rulemakings," an agency spokesperson wrote in an email.

COMMUNITY BANKING

Banks put job cuts — and more — on hold during coronavirus outbreak

By Ken McCarthy
March 31, 2020

The coronavirus outbreak could force banks to make difficult staffing decisions.

The industry, for now, seems intent to hold the line with headcount. Several banks have implemented hiring freezes and others, such as Bank of America, Citigroup and Royal Bank of Canada's City National, have pledged to retain staff through 2020.

Some have cut back hours for some employees, while other banks are putting expansion plans on hold.

M&T Bank in Buffalo, N.Y., recently said it would delay the construction of a planned technology hub that will eventually house 1,500 workers.

"We'll continue to push ahead once it is deemed safe and appropriate to do so, and we look forward to occupying the space later this year," said M&T spokesman David Lanzillo.

The overall impact on employment may be unclear for a while. While the Federal Deposit Insurance Corp. shares headcount data after compiling disclosures in quarterly call reports, banks with less than $1 billion of assets will get a 30-day reprieve from filing those documents.

The banking industry trimmed payrolls by 0.2%, or roughly 4,000 jobs, in 2019, according to the most recent data compiled by the FDIC.

But the coronavirus response is dominating the daily lives of most bankers, forcing most to postpone, or at least de-emphasize, longer-term staffing decisions.

While Truist Financial continues to plan for an innovation and technology center in Charlotte, N.C., the company is largely focused on supporting clients, employees and communities, spokesman Kyle Tarrance said.

Truist has been hiring mortgage lenders in the wake of the Federal Reserve's emergency rate cuts, CEO Kelly King said at a recent conference. Tarrance said the company is also filling technology posts.

Most banks are at a stage where they are determining what openings must be filled and which ones can remain vacant, said Carll Wilkinson, a managing director at Smith & Wilkinson.

The $2.3 billion-asset National Bank of Indianapolis has decided to hold off on hiring, said President and CEO Mark Bruin. A decision to revisit the issue will depend on how long the crisis lasts.

The $18 billion-asset Ameris Bancorp in Moultrie, Ga., is engaged in limited hiring, but that is subject to change depending on the longevity and severity of the pandemic, said CEO Palmer Proctor.

SunWest Bank in Irvine, Calif., is open to hiring portfolio managers for special assets and workers who handle information security, said Kara Trebs, the $1.4 billion-asset bank's director of human capital.

Any hiring decision will center on how vital the role is to operating a bank during the current crisis, industry observers said.

"If you need a CEO, CFO or chief risk officer, you're going to fill that position," Wilkinson said. "It is mission critical."

Other roles being filled are IT jobs, including cybersecurity, and lenders skilled in loan modifications, said Rod Taylor, CEO of the executive search firm Taylor & Co. It has been more than a decade since loan mods were commonplace and many of those bankers have retired or left banking.

Banks are increasing their use of conferencing software to vet those candidates.

The hiring process "may look a little different as we've started using a lot more technology to allow proper social distancing," Tarrance said. "This includes more virtual interviews and a digital onboarding."

Wilkinson said almost every interview he has arranged in the last week has involved videoconferencing.

Many bankers and recruits are fumbling their way through the process, adjusting to lags and missed cues, said Anthony Colaguori, a recruiter in Pittsburgh. One-on-one conversations work best, he said.

"It has been an incredibly rapid switch, and there's a little bit of a learning curve," Wilkinson said.

"What will be fascinating to watch over the next few months is whether some companies transition to hiring virtually with no in-person interaction," Wilkinson added. "Some are already talking about it."

CORONAVIRUS

Emergency loan program to accept applications on Friday

By John Reosti
March 31, 2020

Just days after Congress passed the largest stimulus program in U.S. history, the Treasury Department and the Small Business Administration are close to accepting loan applications.

The agencies said Tuesday that starting Friday borrowers can request loans under the $349 billion Payroll Protection Program using any SBA 7(a)-approved lender, bank, credit union or farm credit administration institution.

The Treasury and SBA also distributed the two-page application form.

The Payroll Protection Program, which is being administered through the 7(a) program, will provide borrowers with up to $10 million that they can use to pay employees and other basic operational expenses such as rent, mortgage interest and utilities.

Borrowers using the funds for those purposes can have as much as 100% of the loans converted into grants and forgiven.

Loan amounts to be forgiven will be "based on the employer maintaining or quickly rehiring employees and maintaining salary level," according to the agencies' guidance. If full-time headcount declines, or if salaries and wages decrease, forgiveness is reduced, and the remaining amount converts to a loan.

Businesses with up to 500 employees are eligible to borrow under the program, including sole proprietorships, independent contractors and self-employed individuals.

While fintech lenders are seeking to participate in the program as direct lenders, none of those companies are currently authorized to participate in the 7(a) program. But the CARES Act allows Treasury Secretary Steven Mnuchin and SBA Administrator Jovita Carranza to open the program to other lenders with "the necessary qualifications to process, close, disburse and service loans."

The Treasury's guidance didn't address fintech lenders, but it mentioned that "other regulated lenders will be available to make these loans once they are approved and enrolled in the program."

The program aims to distribute its funding by the end of June.

"Speed is the operative word," Carranza said in a press release.

"Applications for the emergency capital can begin as early as this week, with lenders using their own systems and processes to make these loans," she added. "Our goal is to position lenders as the single point-of-contact for small businesses. The application, loan processing, and disbursement of funds will all be administered at the community level."

Bankers say they're gearing up to meet the challenge.

"This is not your typical SBA program where borrowers are going to come to banks at various times to borrow money to support a new business," said Frank Sorrentino, chairman and CEO of the $6.2 billion-asset ConnectOne Bancorp in Englewood Cliffs, N.J. "This is going to be every single small business that's affected by [coronavirus], which is just about everybody, coming through the gate all at the same time, all on the same day and all expecting very fast execution."

"Banks are ready to do everything humanly possible to support U.S. small businesses and will continue working with SBA to optimize ramping up an approximately $20 billion annual program to nearly $350 billion in just a few months," Consumer Bankers Association President and CEO Richard Hunt said in a Tuesday press release.

The 7(a) program backs loans made by participating lenders. The SBA guaranteed $23.7 billion in loans during the 2019 fiscal year, which ended Sept. 30.

DIGITAL BANKING

Digital training for bankers paying off in coronavirus crisis

By Miriam Cross
March 31, 2020

These days, social distancing means it's unwise for a teller to look over a customer's shoulder or whip out a tablet for a quick demo when the customer needs help, say, depositing a check by phone — if the bank is even letting customers visit branches at all.

But banks that have invested heavily in training their employees to be more digitally savvy are finding themselves well prepared to support customers who need to replicate in-person transactions online or by app.

At the same time, they have had to creatively tweak their tactics as branches transition to drive-through lanes, allow visits by appointment only, or close completely to limit the spread of the novel coronavirus.

"Now is time to be equipping branch staff to educate every customer that comes in with account questions," said Bob Meara, senior analyst at Celent. "In the past, it was kind of nice — 'We love to see you, come as often as you want, but there's a way to do it without leaving home.' In today's environment this is not just a courtesy, but 'it's really important we show you how to do this, and someone is here right now to help you.' "

Banks have taken a variety of approaches to training their employees, but all have the same result: a more versatile workforce that can help smooth out ripples in customer service, which has become increasingly important as customers must rely on digital banking. It has also given some banks food for thought about how to adjust course in the future.

The formal approach

OceanFirst Bank, based in Toms River, N.J., designed its seven-week Certified Digital Banker program to cover account activation, direct deposit, mobile activity, peer-to-peer payment systems and digital wallets such as Apple Pay and Android Pay. All customer-facing employees graduate well versed in financial technology and ready to help customers with a variety of tasks — even if those tasks do not wholly take place on the OceanFirst platform.

"Our customers want to use a wide variety of payment options," said Christopher Maher, CEO of OceanFirst Bank, a $10.2 billion-asset company. "There will be days when they use Venmo to split a bar bill, Zelle to forward cash to a sibling or parent, and PayPal to buy something online. We trained our people to help with everything."

The reason is, "we want to be in the nexus of their financial transactions," he said. "The more welcoming we are, the more likely we are to maintain status as their primary financial institution."

Now, much of OceanFirst's customer support has moved to the phones. Starting March 17, the bank temporarily closed several branches and restricted the rest to drive-through service or, in rare cases, teller transactions in the absence of a drive-through lane. It also has 14 "remote teller" sites, where customers can interact with a live banker by video to make loan payments, cash checks or complete other tasks they would normally take to a regular branch.

"Fortunately, we were well ahead of the curve in preparing for this, as our digital support channels are incredibly strong," Maher said.

The training program is identical for both in-branch and contact center employees. That means, for example, that while a teller could use a branch iPad or the customer's own smartphone to show them how to open an account, or register their debit card with a digital wallet, the call center employee would talk them through the process or text them a link while staying on the line.

Recently, these roles have almost melded: OceanFirst has taken the unusual step of rerouting some calls to a branch (where staff are still working, even if the lobby is closed) when the wait time at the contact center exceeds three minutes.

The U.S. banking unit of BBVA, which is based in Birmingham, Ala., took a more focused approach. The bank developed its own training program, dubbed Blue Maverick, that teaches branch staffers proficiency on the mobile app, so they can convey the benefits of mobile banking to customers on the spot.

"All branch employees focus on opening and servicing customer accounts, while simultaneously educating customers about the tools that will help them manage and control their finances," said Cody Sparks, executive vice president of relationship model discipline at BBVA USA.

To track the demonstrations, the institution built an in-app feature called BankerDemo that reports all the activity the employee and customer perform together, including mobile deposit, payments, transfers and bill pay. They use the data to help branch bankers figure out their next steps in engaging with customers for in-person mobile demonstrations.

Now, the bank is relying more heavily on verbal instructions and how-to videos on the BBVA website to guide customers through the app, and promoting the convenience of its digital channels.

The gamified approach

When M&T Bank in Buffalo, N.Y., started rethinking how its employees could guide customers through using its online and mobile banking tools, it also rejiggered the layout of branch furniture.

"We used to have service counters that looked like massive old-school hot tubs," said Brandon Horbowicz, who runs retail education and behavioral change for M&T's branch network.

Stationary monitors made it difficult to swivel the screen toward customers, and physical barriers were less conducive to the side-by-side tutorials M&T hoped to encourage. Now, service counters are more open, with multiple levels accommodating those who want to sit or stand, and larger monitors at platform desks that can turn towards the customer.

The $120 billion-asset M&T Bank does not make its digital training mandatory. But with the help of Horizn, a company that helps financial institution employees and customers become digitally fluent, the bank created a set of simulators that walk employees through a variety of online and mobile banking tasks.

Staff who practice using the new simulators and teach these skills to customers earn points and badges, which can lead to quarterly incentive payments. The initiative kicked off by distributing $5 checks to employees and encouraging them to deposit the checks by app so they could see firsthand how easy it was.

"We had to get away from 45-minute web-based trainings that try to teach every scenario without letting employees actually practice it," Horbowicz said. "We needed to let employees play with the actual functionality. They can better educate the customer once they are educated themselves."

The training program opened to their retail branch staff in 2019, and to the business banking division this past January. The result: Before the coronavirus crisis hit, branch employees averaged about 5,000 side-by-side demos each week, in which a staff member may have stood by as a customer tried out suggestions, or swiveled a monitor towards the customer.

Starting March 23, M&T scaled back branch operations. Most of its 700 branches operate by appointment only in the lobbies or by drive-through lanes, although about 30% take walk-ins, with barriers separating customers and tellers. This means the number of side-by-side demos are going down, Horbowicz said. But the same online simulators that walk employees through mobile check deposit, Zelle payments and more are available to the public on M&T's website.

While M&T's contact center is not currently using the Horizn platform, contact center staffers are working to address customer queries in the second quarter by emailing helpful tutorials to callers — an initiative that began before the coronavirus crisis struck — rather than simply referring to the text of their manuals.

Overall, the best employee training happens through a combination of videos, live conferencing and frequent communication, said Joe Welu, founder and CEO of Total Expert, which helps financial companies with marketing and customer engagement.

"Banks need to continuously refresh and hone skills," he said. "Most banks do trainings for one or two days, but consistency and follow-up on how to use digital tools makes the difference."

Reaching all types

All three institutions have found that their older customers — perhaps already accustomed to staying connected with their young relatives online — have adapted well to digital tools, sometimes more quickly than expected.

"We made the assumption going in that all these features will be great, but we're not going to be able to convert some of our older customers," Horbowciz said. "It's been the exact opposite."

Plus, for some banks, the success of their early training initiatives has inspired them to go further. OceanFirst is developing a second-tier program for less routine requests, such as transferring money between OceanFirst and an external bank account or using CardValet to geo-restrict a debit card. The situation has also made Maher wonder about the role of branches in OceanFirst's future.

"People immediately recognized the value to working with us while maintaining social distancing," Maher said. "One of the silver linings is now customers and staff are becoming quite expert at working with each other without being face to face."

Horbowicz also hopes to broaden trainings to cover more complex situations. And, like Maher, he feels that loyalty will come from meeting customer needs, whatever they are, rather than fearing that exposure to digital tools will push them further from the branch.

"Customers are going to seek out digital capabilities, whether it's through us or through a competitor," he said. "We don't want to be Blockbuster, ignoring Netflix and Redbox when Blockbuster was trying to save its business."

TRUMP ADMINISTRATION

Does FSOC have a role to play in coronavirus response?

By Hannah Lang
March 31, 2020

WASHINGTON — Following the last upheaval in the financial markets, policymakers created an interagency body to serve as an early-warning system to identify future threats before the next crisis.

Yet with the coronavirus now wreaking havoc on the economy, observers are questioning if the Financial Stability Oversight Council is up to the job.

The FSOC was established in essence as regulators' vehicle to address turmoil like that brought on by the pandemic. But the council has been largely silent as the Federal Reserve Board along with the bank regulatory agencies have played a more visible role in responding to the economic fallout from the virus.

"We have a highly fragmented financial

regulatory architecture here in the United States and FSOC was designed to provide a place where all of these regulators could better coordinate with one another, manage a crisis response, and they haven't done that," said Gregg Gelzinis, a senior policy analyst at the Center for American Progress.

Gelzinis and others say efforts earlier during the Trump administration to cut the FSOC's budget and staff, and shift the council's focus away from its most tangible job under the Dodd-Frank Act — subjecting systemically risky nonbanks to stricter supervision — have blunted its mission.

"In the middle of an economic crisis, it's hard to go from having really downplayed or ignored the importance of an agency to turning around on a dime," said Michael Barr, a former Treasury official in the Obama administration and a law professor at the University of Michigan.

To be sure, many acknowledge that even a stronger FSOC would likely not have been able to alert policymakers about the financial market risks of the COVID-19 pandemic.

"Few predicted a global pandemic as the next threat to the safety and soundness of the economy," said Thomas Wade, the director of financial services policy at the American Action Forum.

But with the pandemic sparking financial stability questions about the condition of corporate debt, liquidity in the mortgage servicing sector and the duration of a possible recession, the role of FSOC going forward is further under scrutiny.

Some observers wonder if the Trump administration has limited its own ability to react to the current economic turmoil caused by the coronavirus.

Since 2016, the FSOC — which is chaired by Treasury Secretary Steven Mnuchin and includes the heads of all the financial regulatory agencies — has removed the "systemically important financial institution" label from all nonbanks that had been designated under the Obama administration. The FSOC has also dramatically changed the process to designate nonbanks as SIFIs, and shifted its emphasis to identifying risky activities affecting whole sectors instead of individual companies.

Proponents of the activities-based approach say it will help to address underlying sources of risk to financial stability, but critics say the change in strategy makes it more difficult to designate nonbanks in the first place and enables them to operate with less oversight.

"All of these steps really increased risk in the financial system at a time when we should have been doing the opposite," said Barr. "I'd say overall, the financial system is safer than it was in 2008, but not as safe as it should be — not safe enough. And the choices that the current administration made in the last three years contributed to that."

FSOC held a public meeting last week in which each of the principals delivered a report on how their respective agencies were responding to economic concerns about the coronavirus.

"FSOC was established as a means of looking at systemic issues and coordinating across the agencies," said Mnuchin at the meeting Thursday. "We have been using this in a very productive way, but now especially, this is a very important forum for us as we confront a unique situation."

Mnuchin also said he had asked several FSOC members to form a task force on nonbank mortgage servicing in light of liquidity concerns.

"This is an excellent proactive step on behalf of the FSOC," Wade said of the task force. He noted that mortgage servicing became a major flashpoint in the 2008 financial crisis.

Yet some question FSOC's ability to deal with stress in the servicing sector because that stress has likely already arrived.

Gelzinis said the council's authority to designate nonbanks and examine risks to the financial system are tools meant to be deployed before crises, not during them.

"If you look at all of the different tools that are then put in place once a firm's designated — the various safeguards, things like capital, liquidity, stress testing, risk management standards, living wills — all of those are prophylactic measures," he said.

But with the FSOC moving away from designating specific firms for tougher supervision, Barr said that level of oversight is now absent.

"The point of designation as it was conceived in the Dodd-Frank Act was to do that in advance, to do that in good times so that you can supervise the firm and have them build up safeguards and include higher capital in advance," he said. "That's the whole point that I think the administration didn't get."

The Treasury Department declined to comment for this story.

Others countered that the activities-based supervision approach could result in similar safeguards but on a wider scale.

Stephanie Brooker, a partner at Gibson, Dunn & Crutcher LLP, said it is too soon to declare that approach ineffective since FSOC only voted to finalize the framework in December. She added that the process to confer a SIFI designation on a nonbank takes several months.

"Putting aside proponents of that approach and detractors to that approach, generally speaking, thinking about it in the context of where we are with the market reaction to the coronavirus, I think it would be premature to make a judgment about [FSOC's designation activities]," she said.

Meanwhile, designating specific firms right now would be unwise since "you don't want crisis-type reaction to those very impactful decisions," said Brooker.

Gelzinis agreed that designating nonbanks as SIFIs in this moment could actually put a company on shakier ground.

"If you were to designate a firm now because you think it's likely to experience material distress … then it's essentially a scarlet letter in that you can actually exacerbate the stress at a firm," he said.

Wade said an activities-based approach is a more effective way for the FSOC to respond to financial stability threats on the ground.

"My view is that for the FSOC to actually have relevance in the coronavirus crisis it would need to … cover activities, not just individuals, and the entire economy," he said.

But many have raised questions about the effects of staff and budget cuts over the past three years, particularly at OFR.

"Part of the reason we needed to have [the financial research office] in place is that when things go wrong, new questions arise and we need to be able to ask timely questions and monitor what's happening," said Kathryn Judge, a professor at Columbia Law School and a member of OFR's financial research advisory committee.

As of September, OFR Director Dino

Falaschetti reported that his office had about 100 employees, down from 220 in 2017. He added during a House Financial Services Committee hearing that he was looking to expand the office to 150 employees.

"I think not having the full capacity of OFR staff definitely hinders regulators' ability to sort of be as informed as possible in real time on what's going on and have the best analysis available to them from a body that's supposed to focus on financial stability, really exclusively across the financial system," said Gelzinis.

But Judge said it is not too late for OFR and FSOC to do more to address strain in the financial system from the global pandemic.

"Personally, I would love to see the OFR just ramp up its operations in incredibly short order, because I think there's going to be a lot of important policy questions, or we're going to need really good information about where risks are but also the benefits to particular types of interventions," she said.

Although individual agencies have put out statements and guidance to financial institutions on managing any difficulties due to the coronavirus, the council could also put out a statement itself, said Brooker.

"I think it could be very helpful for FSOC, particularly coming out of this meeting, to issue a formal statement that they believe the financial system can weather the storm [and] that they are committed to financial markets staying open," she said. "I think that could be very useful, given the agency heads who sit on the FSOC, to have that type of unified statement."

A group of Democratic members of the House Financial Services Committee, including Chair Maxine Waters, D-Calif., wrote a letter March 11 to Mnuchin urging FSOC to "coordinate an effective response to this urgent matter."

"It is troubling that FSOC, under your leadership, has not been more responsive to this crisis," they said.

Barr said he remains hopeful that FSOC can "figure out how to get it back into gear."

"I hope that they are focused and I hope that they are looking out for risks throughout the financial system and thinking creatively about how to work with the Fed to backstop them, but I don't know," he said.

REGULATORY RELIEF

Fed delays effective date of bank control rule due to coronavirus

By Hannah Lang
March 31, 2020

WASHINGTON — The Federal Reserve is postponing the effective date of a rule dealing with regulatory requirements for investors who own less than a quarter of a bank.

The central bank said Tuesday it will delay implementation by six months, to Sept. 30, of a January rule clarifying standards under the Fed's bank control framework. The extension is meant to allow banks to focus on effects of the coronavirus pandemic.

The rule, first proposed in April 2019, sought to standardize how those owning less than a quarter of a bank can determine if they hold a "controlling" stake, and therefore must register as a bank holding company.

The framework was originally supposed to go into effect April 1, but the Fed said it was pushing back the deadline in order to limit operational burden.

"The Board recognizes that, as a result of COVID-19, there have been recent dislocations in the U.S. economy," the Fed said. "Many companies, including regulated financial institutions, have also expressed a desire to consult with Board staff about the effect of the new control rule on various existing investments and relationships."

The extended time frame "should provide companies affected by the new control rule additional time to analyze the impact of the rule on existing investments and relationships," the agency said.

The final rule is broadly the same as the proposal that the agency issued last year. That proposal established four tiers based on the amount of an investor's voting shares. The four tiers are: less than 5%, 5-9.99%, 10-14.99% and 15-24.99%.

In each tier, control would be presumed under a different set of conditions, such as the size of a company's total equity investment and the makeup of the board.

ONLINE PAYMENTS

Colorado bank rebrands to highlight bigger role in payments

By Jim Dobbs
March 31, 2020

Colorado National Bank in Denver has a new name.

The $25 million-asset bank is now Transact Bank, a rebranding intended to reflect its new focus on offering payment processing and card issuing services to domestic and cross-border businesses.

The bank, sold to fintech entrepreneurs Mark Moskvin and Maxim Yaroshewsky for $9 million in August 2018, is affiliated with Transact Pro, a Latvian payments firm that caters to technology companies. Moskvin and Yaroshewsky own Transact Pro.

"We are proud to build on our momentum as an innovative fintech-focused organization with a solid presence" in the United States and European Union, Moskvin, Transact Bank's CEO, said in a Monday press release.

"Leveraging technology and expertise from both continents will extend our clients an unparalleled platform for conducting commerce, while lowering cross-border fees," Moskvin added.

Transact Bank plans to provide clients access to bank transfers, foreign exchange services, European Union-issued cards, and bank accounts in the U.S. and EU, among other services.

PAYTHINK

Cash's decline can't leave people behind

By Amy Gavin
March 31, 2020

As the world attempts to come to terms with the spread of COVID-19, in financial services thoughts have turned to how digital services can support people as they increasingly self-isolate, or have to work remotely for an extended period of time.

Within this, the debate around the use of physical money has resurfaced. Cash is still the most frequently used form of payment in the U.S., according to the Federal Reserve, representing about 30% of all transactions. But how will this be affected by the coronavirus crisis?

Some organizations are discouraging the use of cash in an effort to limit the virus' spread. Bank branches are closing to protect workers and customers, with Chase the latest example, shuttering around 20% of its branches in the U.S.

While the U.S. was already shifting toward using less cash, there's now scope for the pace of change to increase rapidly. The growth in popularity of smartphones, mobile and online banking, and digital-only financial providers have all been key drivers of change over recent years.

Add to these the explosion in global payments innovation, from iZettle's portable, low-cost payment acceptance tools for SMEs to Stripe's simple e-commerce payment processing platform, and you can see how a cashless future could become a reality.

So is coronavirus becoming the prevailing factor?

This divisive concept of a cashless society has been discussed at length. Prior to COVID-19, many saw the shift toward cashless as inevitable, highlighting benefits for both consumers and businesses associated with convenience, cost and physical security. There are already examples from elsewhere in the world evidencing the theory — China is well on its way to becoming a cashless society, with cash fast being superseded by mobile payments. Scandinavia is also leading the way toward cashlessness, with Sweden on track to become the world's first cashless society by 2023.

On the other side of the debate are those campaigning to protect universal access to cash, calling out the disproportionately negative effects that ditching notes and coins would have on the poorest and most vulnerable segments of society.

Regardless of where you are in the world, the cashless trend presents a number of considerable benefits for consumers and businesses alike.

Everyone can appreciate convenience, and it's certainly true that digital payments make it quicker and easier to pay in most everyday situations. Contactless has made it possible to tap and go — no queues and no fumbling with loose change. Mobile payments mean you don't even have to carry a wallet with you at all, just your phone. The convenience of using smartphones to transfer money in a matter of seconds is impressive and we can split bills easily with friends and family at the touch of a button.

For businesses, there are a number of pros associated with going cashless which are hard to ignore. In many areas, the cost of handling cash is increasingly disproportionate to the number of customers who actually want to use it, meaning that a growing number of retailers are opting not to take cash at all.

Not having cash on the premises can be a major win: reducing the risk of robbery, increasing physical security for staff and eliminating inefficient cash reconciliation processes at the end of each day. Banks now charge serious fees for depositing cash which, coupled with the slow demise of local branches, at least in the U.K., has turned the whole process into a serious headache for many businesses as they're forced to make longer journeys to pay more to deposit their money.

A cashless future looks undeniably appealing on a number of levels. However, we must contextualize the benefits — it's important to understand the potentially damaging implications a cashless system could have on certain segments of society.

Not everyone is happy with the idea of going cash-free and there will always be those individuals who don't feel comfortable leaving the house without a wad of cash in their pocket. These people will defend their right to use cash until the bitter end, stubbornly refusing to adapt to a wholly electronic payments system.

Nevertheless, the real crux of the cashless society debate is not about personal preference, it's about the fundamental importance of fairness and inclusivity.

Poverty is highlighted as the biggest indicator of cash dependence, not least because the poorest in society are unlikely to have the means of accessing computers or smartphones to enable them to bank digitally.

Other groups with a high dependence on cash who would be disproportionately affected include charitable organizations; rural communities without access to reliable internet/mobile coverage; the unbanked; the elderly; those with physical or mental health issues who struggle to manage funds, as well as people with a history of debt problems. For this latter group, who may be particularly reliant on using cash to limit their spending, the lack of friction associated with electronic payments could present a considerable problem.

Cash is vital in supporting financial inclusion and we have a social responsibility to ensure that as cash is phased out, the vulnerable in society are not left behind. That is what's behind many cities in the U.S. — including New York, San Francisco, along with the state of New Jersey — passing legislation to require cash acceptance.

As global demand for frictionless commerce increases alongside smartphone ownership, the use of electronic payments will continue to grow at the expense of physical cash.

The trend towards cashless is inevitable, and could be accelerated by current events. But a gradual transition is key to avoid alienating those people who depend on cash as their primary payment method.

Educating the wider population about the benefits of digital banking and electronic payments must continue to be a priority for governments and banks to ensure that people become more comfortable with using less cash in their day-to-day lives.

It will be fascinating to see whether becoming totally cash-free will actually become a reality in those countries, such as Sweden, at the vanguard of the digital payments revolution. By keeping a close eye on their progress and challenges over the next few years, the other markets can strive to plan and prepare properly for their own shift to cashlessness to ensure as few people as possible are left behind.

Amy Gavin is market researcher for 11:FS. This article originally appeared in PaymentsSource.

BANKTHINK

Twelve years later, another ill-conceived bailout

By Jeff Hinkle
March 31, 2020

With the $2.2 trillion coronavirus stimulus package — the largest economic bailout in U.S. history — now in effect, taxpayers once again find themselves shouldering a massive and murky emergency package, crafted behind closed doors and rushed through the approval process.

No one is questioning if relief is needed. It is.

The U.S. is facing the biggest financial meltdown in its history. If ever a situation screamed out for a modern-day Marshall Plan, this is it.

But there are many other questions, starting with who exactly is getting what and why? And who will oversee the funds?

For anyone over the age of 25, it's hard to shake an uneasy sense of déjà vu. In 2008, faced with the prospect of an economic armageddon triggered by the subprime crisis, policymakers scrambled to bail out the banking and auto industries to help cauterize a massive financial wound.

Then, as now, policymakers said there was no time to examine the fine print embedded in what became the Emergency Economic Stabilization Act of 2008. The bank bailout passed quickly because institutions deemed "too big to fail" were teetering on collapse, putting the entire global economy in jeopardy.

Historians will forever haggle over the execution and effectiveness of the 2008 bank bailout. But with more than a decade of mostly steady economic growth, it appears the 2008 plan of action did the job. Politicians have been running victory laps ever since.

Now facing another massive downturn, it's only natural lawmakers would deploy the same tactics used 12 years ago. However, missing this time is the oversight that accompanied the Troubled Asset Relief Program.

Tarp was created to increase liquidity by allowing the government to buy mortgage-backed securities. But it evolved into a program where the government could also purchase dividend-paying stocks in those banks and financial institutions requesting aid.

This created a highly scrutinized environment where banks were incentivized to quickly pay back their billion-dollar loans. By the time Tarp folded, the government recouped nearly $442 billion from $426 billion in government loans.

The CARES Act signed into law Friday comes with some oversight. Treasury Secretary Steven Mnuchin spent the weekend assuring pundits that at least $500 billion in CARES dollars will operate under the watchful eye of a dedicated committee. But how exactly that $500 billion will be allocated — or who will mind the remainder of the $2.2 trillion — is unclear.

What is known so far is troubling.

As advertised, $1,200 deposits are on their way to qualifying taxpayers. More is available for families with dependents. Unemployment benefits have also been retooled to cover gig workers while qualification periods have also been extended. Beyond these items, protections for the average American get a little hazy.

There is also good news for the besieged health care industry. It will receive a much-needed infusion of $150 billion to help the industry ramp up for what promises to be a grueling spring and summer.

Those expenditures make sense. Others included in CARES are more problematic.

For instance, there is $350 billion earmarked for small-business loans, which is fine, but controls and payback terms are loose: Even small casinos can qualify. Not to be left out, larger casinos are qualified to tap into $450 billion in Treasury-backed loans.

The ailing airline industry has been promised nearly $60 billion in grants and loans. One airline alone qualifies for $12 billion in aid. But here again, the terms are so unclear so that adjacent businesses like travel agencies can partake.

Speaking of air travel, Boeing — already enduring its worst year ever — is in line to reap benefits from a special $17 billion allocation. The troubled airline manufacturer and defense contractor reportedly qualifies for aid because it falls under the heading "businesses critical to maintaining national security."

The list goes on: CARES offers $150 billion to be used at the discretion of state and local governments. The Defense Department has been granted an additional $10.5 billion. For-profit colleges can keep federal loan monies they received from students who drop out due to COVID-19. Even a Kentucky-based cosmetics manufacturer stands to earn because it is developing "innovative" sunscreens.

This is just a sampling of what's included in the massive CARES package, and even lawmakers admit it will take weeks to sort out the details.

As rushed as the 2008 bank bailout was, policymakers still found time to include oversights and payback incentives, helping to reassure a nervous nation. This time out, a much bigger package was assembled in a much faster fashion.

There appears to be little in the package that seriously addresses widening wealth and health care gaps in this country. There is even less oversight.

This leaves the CARES Act looking less like a remedy for an at-risk country and more like a taxpayer-funded buffet.

Jeff Hinkle is the director of content for Polyient Labs, an early-stage blockchain startup incubator. Previously, he worked for more than 15 years in the banking and financial services sectors. ❑