# AMERICAN BANKER

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## Playing it safe

Total agricultural debt declined sharply in the first and second quarters as farmers scaled back their borrowing and lenders tightened underwriting standards

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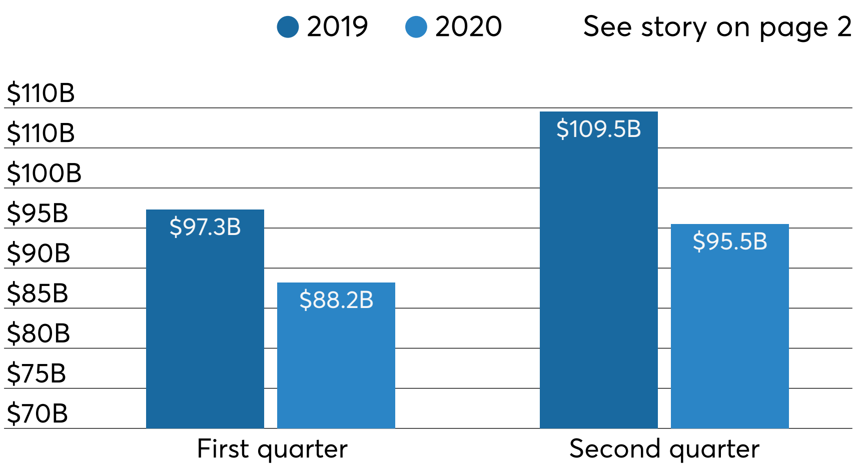


Source: Federal Reserve Bank of Kansas City (excludes real estate loans)

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AGRICULTURE INDUSTRY

# State of ag lending: 'It's not full retrenchment, but it's close'

**By Jon Prior**
August 04, 2020

Fewer agricultural loans are being made these days as a combination of a global pandemic and stalled trade negotiations have discouraged farmers and ranchers from taking on more debt and made banks uneasy about extending more credit.

With no trade deal with China in sight and Congress continuing to haggle over the next coronavirus relief package, many farmers are thinking twice about taking out working capital loans out of fear they may not be able to pay them back. Meanwhile, ag lenders — many of which are already struggling — are advising some clients not to borrow and instead focus on building up their capital reserves to gird for a prolonged economic slowdown.

"Many lenders are speaking with farmers about building working capital, being mindful of costs and scrutinizing investments," said Brian Briggeman, a professor in the department of agricultural economics at Kansas State University and a former economist at the Federal Reserve Bank of Kansas City. "It's not full retrenchment mode, but it's close."

Excluding real estate loans, total farm debt in the U.S. fell to $95.5 billion, down more than 12% from the same period one year ago, according to data released by Kansas City Fed. It marked the fourth straight quarter of year-over-year declines.

Meanwhile, about 1.68% of non-real-estate farm loans were considered nonperforming in the first quarter, the highest level since 2011, according to the Kansas City Fed data. There have been fewer farmers filing for bankruptcy so far this year compared with last year, but that's largely because government payments tied to the trade war with China and the coronavirus outbreak have kept many farms afloat, observers said.

American Farm Bureau Federation President Zippy Duvall said in a statement Tuesday that the latest bankruptcy data shows how vital the first coronavirus relief package in particular was in helping farmers and ranchers weather the weakened demand for their products. He called on Congress to extend more relief to the ag industry, which has seen sales to buyers such as school systems and restaurants plummet.

"The economic impact of the pandemic is far from over," he said. "It's imperative that Congress addresses the challenges facing farmers and ranchers in current coronavirus relief legislation."

The future is so uncertain that the agriculture lending unit for Rabobank North America, the U.S. unit owned by the Dutch banking giant, has decided to largely stick to writing loans for existing borrowers only instead of new clients as a way to avoid any further risk, said Shawn Smeins, deputy head of the company's rural business.

"Ag lending today is pretty tough," Smeins said. "Lenders ... are being a little bit more cautious."

Grain and corn farmers have been hit particularly hard because of the lack of demand for their crops abroad. Corn prices have fallen so low, around $3 per bushel, according to futures market trading, that it's no longer profitable for some farmers to grow it.

"There's a lot of nervousness because they're just below the cost of production," Bob Hartwig, legal counsel and agriculture liaison with the Iowa Bankers Association, said after a call with members Tuesday.

Since the trade war with China started in early 2019, the government has rushed to support farmers and ranchers and, by extension, the banks that hold their debt. More than $14.4 billion in trade relief money has been sent out to farmers since May 2019, according to the U.S. Department of Agriculture.

Another $16 billion has been made available to farmers through the Coronavirus Food Assistance Program to offset a drop-off in demand for crops and livestock. And $7.9 billion in Paycheck Protection Program loans have gone to the agriculture, forestry, hunting and fishing industries as of June 30, according to the Treasury Department.

The American Farm Bureau Federation estimated that roughly 40% of farm income last year came from government assistance and crop insurance.

The Republican version of the new virus relief package includes another $20 billion in farm aid that could be doled out by the U.S. Department of Agriculture, but talks are continuing. Rabobank underwriters no longer include government checks in their calculations when determining whether to write a loan, Smeins said.

"It's just gravy if it does come," Smeins said.

Key fixes, like a permanent trade deal with China to increase crop buying abroad, remain elusive, creating more angst among ag lenders.

"We have a leader of the administration who has tactics that other leaders aren't used to seeing," Smeins said. "Maybe they'll do

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great, or maybe they'll fall flat on their face. I don't want to get into the right or wrong, but there's a lot of uneasiness."

The art of writing agriculture loans has been notoriously opaque because of a lack of crop-producer-level data, which has made the current market even more complicated to maneuver in. Rabobank has recently partnered with the data company Conservis by lending finance analysts and researchers to help expand the amount of real-time data that can be made available to ag lenders.

"We can see trends in the farming operation before the farmer sees them and get them financing before they know they need it," Smeins said.

Another key change in the meantime could come in the form of making it easier for more lenders to write government-backed loans through the Farm Service Agency, an arm of the USDA.

Groups like the Iowa Bankers Association have floated the idea with policymakers, but it's unclear when any changes could be made. Hartwig said lenders are hoping the government will insure more farm loans next year, relieving them of some of the risk.

"That will help more farmers stay on the farm," Hartwig said.

PREPAID CARDS

# Government stimulus spending boosts Green Dot's 2Q revenue

**By Kevin Wack**

August 05, 2020

The COVID-19 pandemic delivered a sharp negative blow to second-quarter earnings at most U.S. banks — but not at Green Dot, which has benefited from emergency government payments to consumers that have been loaded onto the company's prepaid cards.

Green Dot reported that its total operating revenue rose to $316 million in the second quarter, up 12% from the same period a year earlier. Though profits were hurt by rising expenses, and were down substantially from the second quarter of 2019, the Pasadena, Calif., company still managed to report modest net income of $3.3 million.

CEO Daniel Henry, who started at Green Dot in the spring, right around the time that stay-at-home orders took effect, declared success in his first full quarter at the helm. "I am very pleased with all the early signs of progress that we are making," Henry said Tuesday during a call with analysts.

Shares in Green Dot have soared in 2020, in defiance of the industrywide trend. Its stock price closed above $53 on Tuesday, up from less than $24 at the start of the year. An index of bank stocks from Keefe Bruyette & Woods is down by 35% over the same period.

In addition to the government stimulus payments, Green Dot is likely benefiting from the boost that digital payments have gotten from the pandemic. Many analysts expect that recent changes in how U.S. consumers choose to pay will be at least somewhat enduring.

The company's share price may also be benefiting from Henry's promise to keep expenses in tighter check. One early example of the new CEO's mindset: Green Dot's Unlimited debit card now offers less cash back on online purchases, plus a lower yield on savings, than it did previously.

Still, Green Dot saw its total operating expenses climb by 33% to $311 million during the second quarter. Henry said that call centers upon which the company relies experienced staffing disruptions amid the pandemic, which led to longer-than-normal wait times and higher costs for the company. The company also reported an increase in losses due to disputed transactions.

The Consumer Financial Protection Bureau has reported that consumer complaints about prepaid cards rose by 105% during the early stages of the pandemic.

Green Dot's earnings in the latter half of 2020 will be influenced by whether Congress authorizes more stimulus payments and renews expanded unemployment benefits in the coming weeks. During the second quarter, the federal government's extraordinary spending helped fuel $8.5 billion in purchase volume on Green Dot products, up 31% from the same period a year earlier.

But even if Uncle Sam stops writing checks, Henry predicts that Green Dot will benefit from a recently announced policy change that was spurred by the pandemic. Green Dot will allow all of its employees to work from anywhere throughout 2020, a move company officials argue will enable them to reduce real estate costs while also attracting better job applicants.

DIGITAL BANKING

# Banks ready new tech tools to tackle debt collection

**By Penny Crosman**

August 04, 2020

A tidal wave of consumer debt issues is bound to hit when government assistance ends and banks wind down their loan deferral and forbearance programs.

"A tremendous amount of liquidity assistance has been provided to customers," said Brian Middleton, head of strategic execution and business transformation in Regions Bank's operations and technology group. "It's fair to say that that will run out at some point. My hope is that customers are back to being fully employed soon. Only time will tell."

To prepare, banks are putting in place technology that helps streamline debt collection and make it more humane and conversational.

Where debt collectors of yore would have called people at home (and perhaps have badgered them), today some banks are setting up automated, gentle reminders of late payments; the ability to renegotiate a payment plan on a website or app; virtual assistants to communicate with borrowers; and robotic process automation to execute the changes customers request.

"We're seeing more financial institutions, lenders and others bracing for impact," said Ohad Samet, founder and CEO of TrueAccord, a mostly digital collections agency used by several large banks. "Some are still in denial, but the vast majority are saying, we need to acknowledge this and we need to do something about it."

Alan McIntyre, senior managing director for banking at Accenture, said that during the mortgage crisis, lenders' answer to this problem was to have thousands of people in warehouses calling borrowers.

"This time, we're seeing more banks thinking about creating systems and approaches that interact with the customer better, gather better information and make better decisions," he said.

Banks have something they didn't have in 2008: time to prepare.

"We have this calm before the storm," McIntyre said. "The real impact is not going to start to be felt until the fall."

### Building a self-service portal at Key

Some banks, including BBVA and Barclays, have created self-service portals borrowers can use to modify their repayment plans.

KeyBank started building such a portal about a year ago for loans and credit cards.

"We feel strongly about being a relationship bank and those relationships, just like marriage, aren't only for good times, they're for good times and bad," said Kimberly Snipes, consumer chief information officer at Cleveland-based Key. "We want our customers to say, I hate that I had that situation, but I felt like my bank was working with me, not against me."

The bank partnered with several vendors, including Oracle, to build the portal.

"It allows our customers a frictionless way to engage with us around the ability to make a payment, to make a promise to pay, or to have some kind of workout," Snipes said.

The anonymity of the technology "gives them a way to handle what I'm sure is a very stressful situation for them in a more dignified and maybe comfortable way," she said.

KeyBank plans to guide customers to the portal through messages in its online banking site and through text alerts.

Legal, compliance and risk groups within the bank are figuring out what the policies to use to help customers out.

"There are compliance and regulatory restrictions around what you can and can't do, and how often you can do those things," Snipes said.

Snipes hopes Key will roll out the portal in the current quarter.

The bank has also begun deploying robotic process automation whenever there is a clear case for forbearance or some other aid.

And KeyBank wants to be more proactive by analyzing data to see which borrowers are having trouble, reaching out to them and helping them before they fall behind on payments.

### Early intervention at Regions

That kind of proactive stance and the use of robotics are both in play at Regions, of Birmingham, Ala.

Collections call volume increased to 15 times the usual volume from late March to late April as customers suffered pandemic-related hardships, the bank said; it would not share the exact numbers. Because of automation and process improvement the bank implemented, the collections team was able to handle the increased volume without adding personnel.

Automating collections has been a priority for the bank since early 2020, before COVID-19 appeared in the U.S., according to Middleton.

"We had the aim and the desire to enhance our customer experience when it comes to collections," Middleton said.

Regions has worked hard to identify delinquent borrowers with the ability and the willingness to pay. Those kinds of customers often rely on lenders to notify them that they have missed a payment or have overdrawn, he said.

The bank has used texts and emails, rather than traditional phone calling, to warn customers that they have missed a payment. By using such alerts, the bank says, it has reduced outbound collections calls by 60%.

The alerts are rules-based, and the tone is supposed to be conciliatory.

"We're looking to come alongside our customers and help them through whatever hardship they're experiencing," Middleton said. "So a lot of the texts are just a reminder, realizing that people are really busy and may have forgotten to make a payment, may not realize that their account is overdrawn or may not know how to get the help that they need."

Another subset of customers is those who are willing to pay but can't due to COVID-19 or other unforeseen circumstances in their lives, Middleton said.

Regions has added intelligence to its interactive voice response system to understand if the customer qualifies for a payment deferment and automatically set it up.

Customers always have the ability to speak to an agent, Middleton said.

"But we're seeing quite a few customers leverage that IVR technology," he said.

### Benefits of automated collections

Samet at TrueAccord, which has 5 million active monthly users, pointed out that with people working from home, call centers are not as effective as they used to be. Agents working from home can't maintain compliance with payment security standards and therefore can't take card payments. (So-called PCI compliance requires physical security that people working from home don't have.)

TrueAccord's platform uses artificial intelligence to interact with consumers at the times and in the channels they prefer, mainly text and email. The system lets them tell their story and then helps them come up with a repayment plan. All available options are dictated by the lenders. The tone of communication adjusts according to consumers' behavior — both what they say and what they do.

Samet said 96% of TrueAccord's resolutions do not involve a human.

"Even when they communicate with a customer care agent, it's mostly around sending an email or text and getting a response that carries them forward and not getting into too much of a conversation," Samet said. "People [in debt] don't want to talk to people. If they do, we're available."

When TrueAccord added a feature to its service that lets users to move an upcoming recurring payment by up to seven days with a couple of taps on their smartphone, inbound calls to its call center dropped by 11%.

"Giving them that flexibility reduces stress, reduces friction and increases people's ability to stay subscribed to the repayment plan that they chose," Samet said. "If you can get as good results or even better results by being on the consumer's side, then you have nothing to lose. The better the service you give consumers, the more flexibility you give them, the more people pay — it's directly correlated."

The business process outsourcing and collections agency ERC, which also has several large bank customers that it can't name, uses an AI-based virtual assistant named Eva from Interactions to converse with borrowers who are behind on payments.

The virtual assistant handles simple

requests, such as address and phone number changes and taking payments.

Customers can speak their requests to Eva, which has natural language processing technology that converts spoken words to text the computer can understand.

"She might not be able to help you with everything that you say, but she'll understand everything you say," said Marty Sarim, the chief executive of ERC, a collections and business process outsourcing company. Eva also responds in sentences and says things like, "I need more information to do this."

With the use of the virtual agent, seven live agents can do work that formerly would have been done by 10, Sarim said.

"And those seven people are more efficient because they're only focusing on what they do best, which is handling complex calls," Sarim said.

Customers have become more comfortable speaking and interacting with a virtual agent in the three years ERC has been using Eva, Sarim said.

"There's no longer that hesitation or concern that people will just zero out to try to speak directly to a human," he said. "In the collections industry, we're seeing this phenomenon that people want to interact with a virtual agent because there's no embarrassment, there's no judging, they don't feel like they'll be harassed."

COMMUNITY BANKS

# Investors struggle to get clear read on small banks

**By Jim Dobbs**
August 04, 2020

Uncertain credit quality, historically low interest rates and the potential for stiffer regulation after the upcoming election are making it harder for investors to determine the earnings potential for community banks.

Smaller institutions tend to have easy-to-understand financials, driven by net interest income. Deferrals and modifications, along with the amortization of fees from the Paycheck Protection Program, are skewing results and creating more complexity.

"The toughest part about this earnings season is that we really didn't learn much," said Stephen Scouten, an analyst at Piper Sandler.

"Many, many banks are taking big reserves now, trying to get in front of what may be ahead," Scouten added. "But we really don't know what is happening yet and how much, in terms of reserves, might be enough because nobody really has a good handle on what loan losses could be."

Castine Capital Management in Boston, which has focused on community banks, said in a July letter to investors that it plans to close its funds after it was "unable to judge whether or not the banks' recent financial statements are even reliable."

Bank stocks "will be un-investable for at least the intermediate future," added Castine, which has stakes in banks such as Westbury Bancorp in West Bend, Wis., Community Bankers Trust in Richmond, Va., and HMN Financial in Rochester, Minn. The company pointed to the "opaqueness of the numbers and bankers' lack of conviction in their own outlooks, combined with a complete lack of any COVID-19 strategy at the federal level."

While a Castine representative declined to comment further, more investors have been shying away from the banking industry in recent months.

The KBW Nasdaq Bank Index is down more than 30% this year, despite a broader market recovery from the lows reached in the first quarter. The S&P 500 is up slightly year to date.

The wild card remains the coronavirus pandemic, including its unclear duration, ultimate impact on the economy and, by extension, the damage it might inflict on banks' balance sheets and earnings.

Most analysts agree that the economy began to recover in May and June, as businesses began to reopen and consumer spending picked up some from April's lows. Unemployment, while still high, has improved substantially.

Such progress fed optimism among bankers that borrowers would catch up on their deferred loan payments and that, outside of the hardest-hit sectors, lenders would avoid widespread credit deterioration.

Then the pandemic worsened in July, as outbreaks and record daily case levels drove several heavily populated states such as Florida and California, to pause or roll back portions of their reopening plans. Pandemic-related unemployment benefits expired at the end of July, and lawmakers have yet to agree on the details of a new stimulus package.

"The path forward depends on the virus, the efforts to contain it, and the amount of fiscal support," said Scott Brown, chief economist at Raymond James.

July's setbacks injected new doses of uncertainty and raised concerns that the pandemic could freeze the burgeoning recovery, potentially leading to new rounds of deferral requests and, eventually, more soured loans for banks to sort through.

"It is very challenging right now to really understand" banks' exposure to loan losses, said Damon Del Monte, an analyst at Keefe, Bruyette & Woods.

Bankers are doing the best they can to provide clarity and address concerns.

Several smaller banks said during earnings season that inquiries about extended loan deferrals were far fewer this summer than initial requests received in March and April. But requests continue to roll in nonetheless and, with many things still unclear, bankers were careful to emphasize uncertainty.

Hope Bancorp in Los Angeles was among the banks to emphasize the "fluid situation" it faces.

The $17.2 billion-asset company expects about 60% of its commercial borrowers will request a second deferral, Chairman and CEO Kevin Kim said during Hope's quarterly call with analysts. Hope "will be requesting, on a best-effort basis, concessions in the form of additional collateral, payment reserves or some other type of credit enhancement."

Executives at South State said on the Winter Haven, Fla., company's quarterly call that it already pulled its most powerful levers — 90-day loan payment deferrals and aggressive PPP lending — which helped its clients weather initial setbacks.

The $37.7 billion-asset company, created by the June merger of South State and CenterState, made about 19,000 PPP loans totaling $2.4 billion, or a tenth of total loans. Deferrals accounted for 17% of its portfolio at the end of June before settling down to about 11.5% late last month.

It is unclear whether those efforts will ward off, or merely delay, defaults in the future.

"We estimate we'll end up in the mid-singledigit percentage of loans on deferral" by late August, Daniel Bockhorst, South State's chief credit officer, said on the call, though he added that "the future is still somewhat unknown … and there is the potential" for another increase down the road.

That uncertainty played heavily into Castine's decision.

While an optimistic scenario would feature a relatively quick recovery and a resumption in loan payments, the company noted that a negative outcome, where deferrals last a long time and borrowers struggle with payments, "is not difficult to envision in the case of hotel, travel, restaurant, and other retail borrowers."

Some investors are hopeful that the banking industry's underlying strength prior to the crisis will help it weather the aftermath of the pandemic.

Robert Bolton, a bank investor and president of Iron Bay Capital, noted that banks, by and large, entered the crisis well capitalized. And they had generally strong credit quality.

But the next few quarters will be bumpy.

"Banks do not operate in a vacuum," Bolton said. "It's definitely going to be challenging until we contain the virus and know its duration. And we could see new challenges after the election. There are definitely some very big wild cards."

PAYCHECK PROTECTION PROGRAM

# As lawmakers weigh PPP reforms, bankers want them to think big

**By Neil Haggerty and Kate Berry**
August 04, 2020

WASHINGTON — Small businesses will be unable to get loans through the Paycheck Protection Program starting Saturday without congressional action, but bankers say lawmakers should prioritize a host of other provisions to improve the program besides just reauthorizing it.

As Congress debates a new coronavirus relief package, the industry is urging lawmakers to focus on prescriptive measures to simplify the PPP loan forgiveness process and on removing barriers small businesses may face in trying to get a second loan.

"Giving those smaller businesses a second bite of the apple, including PPP expenses being covered, is a lifeline," said Patti Husic, president and CEO of the $1 billion-asset Centric Financial in Harrisburg, Pa.

Senate Republicans last week proposed to make roughly $190 billion available for businesses to apply for a first or second loan. Democrats, in their stimulus proposal introduced in early July, suggested allowing businesses to apply for PPP loans through Dec. 31. As of July 31, roughly $128 billion was still available for lending through the existing PPP.

While bankers would like for Congress to enable businesses to access a second loan, some bankers are concerned about a proposal to reduce the origination fees that banks can collect on a second loan from 5% to 3%.

Bankers would also like Congress to address concerns about the Small Business Administration's process for forgiving PPP loans by specifying in the legislation what an application form for forgiveness should look like.

"Many small businesses participating in PPP were completely overwhelmed with the application process and forgiveness has proven to be even more of an obstacle," said Jill Castilla, CEO of the $292 million-asset Citizens Bank of Edmond in Oklahoma. "Small businesses have exhausted their reserves for operational losses. They need immediate help."

Husic said the SBA and Treasury need to reduce the number of changes being made to the program, which has caused confusion.

Some bankers are concerned that because of the constant changes, the loans they originate will not be guaranteed by the government.

"Congress needs to immediately extend the payment subsidy of SBA loans and provide 100 percent guarantees to SBA loans originated in 2020," Castilla said.

Some bankers want blanket forgiveness of all loans of $150,000 or less as well in addition to letting companies access a second round of financing.

"A lot of businesses brought their employees back as soon as they got their money, but others didn't, and those that did used the money in eight weeks and the amount they got cannot sustain them long-term," said Husic.

High on the industry's wish list is for Congress to focus on improving the loan forgiveness process.

Republican senators' proposal, known as the Health, Economic Assistance, Liability Protection, and Schools Act, or HEALS Act, would automatically forgive loans under $150,000 for borrowers who submit an attestation to lenders that they made a good faith effort to comply with requirements in the PPP. Borrowers receiving up to $2 million in PPP loans would also be exempt from submitting several documents and requirements initially mandated by the Coronavirus Aid, Relief and Economic Security Act, or CARES Act.

A spokesperson for the Consumer Bankers Association said that the simplified PPP forgiveness was a positive step, but that it could still be improved.

"While the HEALS Act does call for streamlined forgiveness, it does not specify what that form should look like or set a timeline for SBA to issue the form," the spokesperson said. "Congress already instructed SBA to create an 'EZ' form, which when released still required a full page of complex business calculations many small businesses will have to hire a third-party firm to complete."

Bankers support a proposal introduced by Sens. Kevin Cramer, R-N.D., Thom Tillis, R-N.C., Bob Menendez, D-N.J., and Kyrsten Sinema, D-Ariz., that would go a step further by specifying that the attestation could be a simple one-page form submitted to the lender. The legislation would also ensure the lender will be held harmless from any enforcement action if the borrower's attestation contained falsehoods.

Paul Merski, group executive vice president for congressional relations and strategy at the Independent Community Bankers of America, said that a "safe harbor" for lenders was "very attractive."

"We are fully engaged and pressing hard to get relief in the forgiveness phase," Merski said. "I think if you can get that, you'll free up time and resources to be able to extend additional PPP loans. But most loan officers around the country are working with borrowers now on the grant phase, collecting all that paperwork."

Some observers also say the loan terms associated with the program have not made it worth the time that banks spend processing forgiveness applications.

Merski said that the 1% interest rate on PPP loans proposed in the HEALS Act, as well as the proposed decrease in origination fees from 5% to 3% if businesses apply for an additional PPP loan, is not attractive to banks given the amount of time spent dealing with PPP loans.

"The terms just barely worked in the first round of PPP with the origination fees and interest rate and things like that," Merski said. "Now the origination fees … and terms are even less attractive in what's been proposed. So I don't see a robust take-up of additional PPP lending if the terms for both the borrower and lender get worse. … The fees were on the low side for the amount of work they ended having to do."

Ed Mills, a policy analyst at Raymond James, said banks need better incentives to make it worthwhile to participate in the paycheck program.

"Incentives matter," Mills said. "Initially folks were really engaged because they wanted to provide assistance to existing customers. But you've gone through an earnings season where [net interest margins] have been lower because the interest rate charged has been below the market interest rate that is traditionally charged on bank loans."

While bankers are seeking more incentives to participate in the PPP, some observers are skeptical that improvements, such as higher fees or interest rates or a simplified loan forgiveness process, would be appropriate.

Moorari Shah, a partner at Buckley, said raising interest rates and fees on the PPP would go against the original intent of the program.

"Higher interest rates might also be helpful, but they are contrary to the program itself, which was intended to create a less expensive source of credit," Shah said.

Gregg Gelzinis, senior policy analyst at the Center for American Progress, noted that banks have profited from participation in the PPP, despite compliance burdens associated with forgiving the loans.

"I would say it seems like whether it's from PPP or the debt issuance that's occurring thanks to the Fed's intervention, banks have made out pretty good from a profit standpoint when it comes to these emergency programs," Gelzinis said. "So generally speaking, I don't have a lot of sympathy that they need to be compensated more or their paperwork burden needs to be limited."

COMMUNITY BANKING

# Maryland bank's name change reflects M&A aspirations

**By Jim Dobbs**

August 05, 2020

Delmar Bancorp in Salisbury, Md., is set to become Partners Bancorp.

The $1.5 billion-asset parent of the Bank of Delmarva and Virginia Partners Bank said the plan reflects the need for a new name as it focuses more on buying other community banks in the mid-Atlantic region.

Acquired banks "will keep their names, charters, and management in order to deliver the best of community banking, while benefiting from the strength of a larger, multi-bank holding company," CEO Lloyd Harrison III said in a press release Tuesday. "Renaming the company to Partners Bancorp describes our shared culture and our strategic model best."

The company bought Virginia Partners last year.

Other community banks have recently changed their names.

In July, Provident Bank in Amesbury, Mass., rebranded as BankProv. The $1 billion-asset bank said the change reflected its focus on technology. It also said it encountered market confusion when competing in niche markets as it expanded nationally.

Additionally, the former People's Utah Bancorp in American Fork changed its name to Altabancorp in late June. The $2.5 billion-asset company previously rebranded its three banks — Bank of American Fork, Lewiston State Bank and People's Town and Country Bank — as Altabank.

COMMUNITY BANKS

# Organizers propose new bank in Ohio

**By Paul Davis**

August 04, 2020

A group is looking to form a bank near Columbus, Ohio.

First Bank of Central Ohio would be based in Worthington, a suburb north of Columbus, according to an application filed on July 29 with the Federal Deposit Insurance Corp.

The proposed bank would offer traditional loan and deposit products and services to individuals, along with small and midsize businesses, with a focus on commercial real estate, commercial loans and multifamily.

First Bank would originate and sell fixed-rate mortgages and be "moderately active" in adjustable-rate mortgages, residential construction and home equity, the filing said. While the bank would offer secured and unsecured consumer loans, they would make up "minimal level" of the overall portfolio.

Organizers plan to open with "a full complement of state-of-the-art technology," including online and mobile banking apps for paying bills, remote deposit and setting up ACH transactions, the filing said.

John Smiley is set to become the bank's chairman and CEO. He previously served as president of Columbus First Bancorp, which was sold in 2018 to LCNB. The filing said the remaining executives are being lined up.

The capital plan was redacted in the FDIC filing.

Ohio has received some interest when it comes to de novo activity.

Ohio State Bank opened in Columbus in April 2019 after organizers raised nearly $25 million in initial capital.

The FDIC in March approved an application for deposit insurance filed by organizers of Riverside Bank of Dublin. The group is required to raise at least $18 million before opening.

HOME PRICES

# Home prices rose in June, but they'll likely fall in 2021: CoreLogic

**By Paul Centopani**
August 04, 2020

Price appreciation jumped 4.9% annually in June and 1% month-over-month, according to CoreLogic's Home Price Index. While falling short of the 5.2% bump predicted a year ago, it was the highest growth rate for the month of June since 2013.

June's annual increase was also a gain from the respective year-ago price growth rate of 3.6%. With the coronavirus negatively impacting the economy, the data provider predicts prices to climb only 0.1% into July and to fall 1% by June 2021. Since bottoming out in March 2011, the HPI grew 68.3% and rose on an annual basis every month since February 2012.

"Home price appreciation continues at a solid pace reflecting fundamental strength in demand drivers and limited for-sale inventory," Frank Martell, president and CEO of CoreLogic, said in a press release. "As we move forward, we expect these price increases to moderate over the next twelve months. Given the economic outlook, housing remains a bright spot for the foreseeable future."

Record-low mortgage rates played a major part in keeping the housing market strong. Because they hover at a historic nadir, more millennials look to take advantage of them. Meanwhile, affordability rose to the highest point since 2016 despite the steady price growth.

With the exception of South Dakota declining 1.1%, every state posted annual increases in average home prices. Idaho's 10.5% growth led the nation, followed by 9.8% in Montana, and 8.5% in both Arizona and Missouri. Among the 10 largest metro areas, Washington, D.C. grew the most annually at a 4.8% rate, trailed by 4.5% in San Diego and 4.4% in Houston. Only San Francisco prices regressed, edging down 0.2%.

Housing markets heavily reliant on entertainment, tourism and hospitality are forecast to have hardships going ahead to next year. CoreLogic expects Las Vegas home prices to drop 11.3% by June 2021, while places like Lake Havasu, Ariz. — where coronavirus cases have resurged most — face the greatest risk of falling housing values.

LOSS MITIGATION

# As mortgage forbearance rate continues to decline, MBA advises caution

**By Paul Centopani**
August 03, 2020

The pace of mortgages going into forbearance declined for the seventh week in a row, but a rise in coronavirus cases could stop that momentum, the Mortgage Bankers Association reported. Pandemic-related forbearances fell 7 basis points between July 20 and July 26, according to the organization's latest report.

Approximately 7.67% of all outstanding loans — or about 3.8 million — sat in forbearance plans compared to 7.74% and nearly 3.9 million the week before. The share of forborne loans at independent mortgage bank servicers declined to 7.81% from 7.85%, while depositories dropped to 7.95% from 8.06% over the same period.

"We are now seeing a notable pattern developing over the past two weeks. The forbearance share is decreasing for GSE loans but has slightly increased for Ginnie Mae loans," Mike Fratantoni, the MBA's senior vice president and chief economist, said in a press release.

The forbearance share of conforming mortgages — those purchased by Fannie Mae and Freddie Mac — fell to 5.41% from 5.49%. Ginnie Mae loans — Federal Housing Administration, Department of Veterans Affairs and U.S. Department of Agriculture Rural Housing Service products — edged up 1 basis point to 10.28%.

Private-label securities and portfolio loans — products not addressed by the coronavirus relief act — continued going up and down, this week dropping to 10.37% from 10.53%.

"The job market has cooled somewhat over the past few weeks, with layoffs increasing and other indications that the economic rebound may be losing some steam because of the rising COVID-19 cases throughout the country," Fratantoni said. "It is therefore not surprising to see this situation first impact the Ginnie Mae segment of the market. The higher level of Ginnie Mae loans in forbearance will increase the amount of payments that servicers must advance. We continue to monitor servicer liquidity during these challenging times."

Forbearance requests as a percentage of servicing portfolio volume decline to 0.1% after staying static at 0.13% for three weeks, while call center volume as a percentage of portfolio volume cut down to 6.7% from 9%.

The MBA's sample for this week's survey includes a total of 52 servicers including 27 independent mortgage bankers and 23 depositories. The sample also included two subservicers. By unit count, the respondents represented about 75%, or 37.3 million, of outstanding first-lien mortgages.

BANKTHINK

# Banks, fintechs must reframe data privacy debate

**By Katherine Flocken and Tyler Griffin**
August 04, 2020

Financial services innovators are at risk of losing access to data that's critical to their businesses if Congress passes a proposed data privacy bill or one of several like it.

Lawmakers are increasingly concerned that Americans continue to sacrifice privacy in exchange for products they can't live without, especially as the coronavirus pandemic forces more commerce online. Unless consumers are somehow able to use cash only, no longer engaging in modern life by using a cellphone or the internet, they must share their data, putting their privacy at risk.

Such a trade-off, however, is a forced choice born of a misunderstanding of what privacy really means. The financial services industry must take a different approach to defining the problem and crafting solutions.

Privacy advocates are often more concerned about the sheer volume of consumer data being shared between institutions and third parties than what is done with that information. But focusing on the amount of data being held leads to a dead end, as most technology needs vast amounts of data to function. And particularly during the coronavirus pandemic, it has become nearly impossible to function personally or professionally without technology.

This view of quantity-as-privacy-violation is counterproductive on two counts. First, it leads consumers to adopt a hopelessly resigned view of privacy, and second, it can lead companies and policymakers to propose inadequate or even harmful solutions.

Data used well has tremendous power to improve lives, and the financial services industry has powerful stories to tell about its positive use.

During the current crisis, data technology has helped small banks issue hundreds of millions in loans through Congress's coronavirus relief efforts. Two years ago, lack of access to critical data nearly destroyed a startup that helps those in poverty manage food stamp benefits.

At the same time, privacy is essential to life in a free country. Its loss cannot be dismissed.

A 21st-century definition of "privacy violation" should focus on situations in which a company takes or shares data from people without their knowledge or permission, handles data irresponsibly and enables access by bad actors, or uses data in a manipulative manner.

Critically, companies should be free to use data to provide valuable products and tools, but they should be prohibited from mishandling, underhandedly exploiting or inadequately safeguarding that data.

While it is tempting to suggest legislation requiring such safeguards, there is reason to be cautious. It is imperative that businesses not face a state-by-state patchwork of regulation.

Every business, from startups to multinationals, needs to ensure compliance with every statute on day one of operation — a feat often easier for the largest and most well-capitalized corporations.

Accepting federal preemption in this matter, however, means states can't be used as the testing ground to help guide the way. And any proposed policy must also acknowledge that individuals have vastly different priorities and tolerances.

Yet frustration with tech's historically casual approach to privacy is high, both among voters broadly and policymakers in particular.

Bills can come quickly — especially amid an election year and crisis — and bits of rapidly drafted legislation can squeeze into must-pass legislation.

It is up to financial services innovators to inform lawmakers and demonstrate that they are doing good, not harming consumers.

A consumer-first approach to product development is the best way to avoid a heavy regulatory backlash.

There is much industry can do. Customers must have choice, the choice must be informed and it cannot be merely theoretical. The existing "informed consent" model does not work.

Esoteric terms of service that obscure as much as they reveal offer no choice, and are rarely read. Instead, developers can provide clear, plain-language requests to obtain and use data to their users in real time.

Responsible actors should take this opportunity to explain to customers why the data requested is necessary and articulate clearly the benefits of sharing data with them. The same message should be provided clearly to lawmakers considering privacy legislation now.

Anything policymakers do not understand is a threat to every business that relies on data use. And because the legislating process is largely public, lawmakers often view silence as tacit acceptance of proposed legislation.

There is a narrow window now for innovators to define their stance on privacy to preserve their ability to access and use data responsibly. If stakeholders engage proactively with policymakers, there is still time to work together to craft flexible solutions that benefit consumers and businesses alike.

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