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Bracing for a spike in loan mods

Troubled-debt restructurings had been steadily declining at U.S. banks

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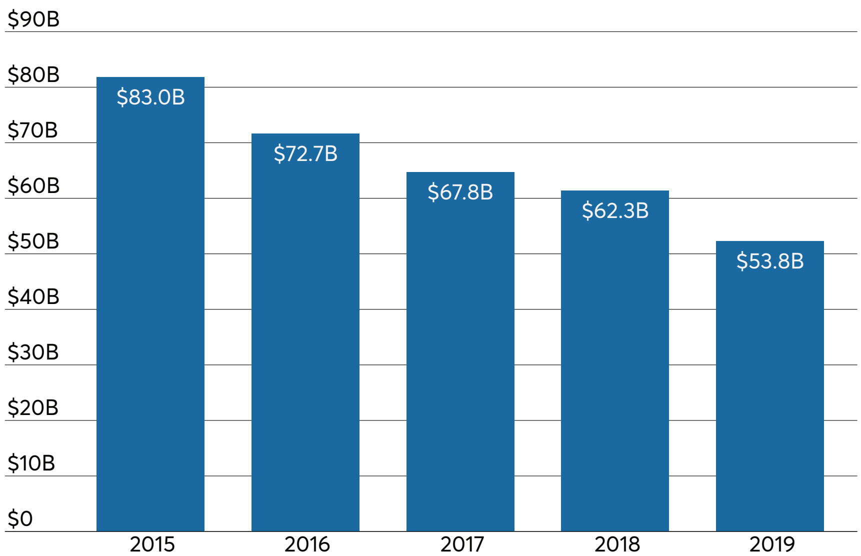

Source: FDIC (includes loans 30+ days past due)

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CORONAVIRUS

Banks get break they needed on loan workouts

By John Reosti
March 23, 2020

Banks and credit unions are eager to take advantage of newfound flexibility for restructuring loans battered by the coronavirus outbreak.

Federal regulators and the Financial Accounting Standards board gave lenders a helping hand Sunday, agreeing that short-term loan modifications tied to the pandemic do not have to immediately count as troubled-debt restructurings. Normally, any concession made to a borrower would trigger classification as a TDR.

It's a big boost for lenders because TDRs must be evaluated for impairment and a potential increase in the loan-loss allowance. And a TDR tag sticks with the loan as long it is on a bank's books.

"The technicalities of the impairment analysis are very troublesome," said Mary Ann Scully, chairman and CEO the $2.4 billion-asset Howard Bancorp in Baltimore. "Collateral values may be impacted, and cash flow is most definitely impacted."

In the aftermath of the financial crisis, restructured loans at banks topped $140 billion at the end of 2011. Clearly, regulators are hoping to head off a similar surge due to the coronavirus outbreak.

The issue had also gained the attention of some lawmakers.

Rep. Blaine Luetkemeyer, R-Mo., in an interview Friday, identified TDRs as "stumbling block" that would "inhibit banks from doing what they need to do." Luetkemeyer said at the time that he was exploring ways to rescind or suspend the accounting for such restructurings.

A delay in recording TDRs should lessen any spike in problem loans in advance of first-quarter earnings and, by extension, "reduces the threat on declines to tangible book value per share," especially for publicly traded banks, said Chris Marinac, an analyst at Janney Mntgomery Scott.

Marinac had called on regulators to issue emergency guidance on how lenders should treat credits impaired by coronavirus turmoil.

"This is an unprecedented credit event for all banks, therefore it requires an emergency playbook," Marinac wrote in a Thursday research note.

Many banks, including Howard, the $4.4 billion-asset Camden National in Maine, and the $6.7 billion-asset Tompkins Financial in Ithaca, N.Y., started approving temporary deferments and other loan modifications for hard-pressed clients well in advance of Sunday's statement.

"We've been emphasizing short-term relief, deferring payments for 90 days," said Renee Smyth, chief experience and marketing officer at Camden National.

"We want to help take some of the pressure off borrowers, but we don't want to have to classify the loans as TDRs," Smyth added. The regulatory intervention "helps us as a bank."

While some loans will require restructuring, having to deal with a wave of new TDRs "would become a bigger reporting issue," Smyth said.

Scully noted that the relief will take some strain off her staff. Absent the intervention, bankers would be scrambling to calculate cash flows and discounts to determine impairment.

"Which cash-flow stream are you going to discount to determine if there's impairment?" Scully said. "What if they said you have to look at the cash flow at the time you made this decision? … The people who are at ground zero in this situation are the last people in the world you'd want to be doing a premature discounted cash-flow analysis on."

A number of banks might also suffer from "gaps of institutional knowledge" for work outs since it has been a dozen years since the last economic downturn, Aite Group noted in a recent report.

While the Federal Deposit Insurance Corp., Office of the Comptroller of the Currency, Federal Reserve and the National Credit Union Administration issued a joint statement March 9 encouraging lenders "to work constructively with borrowers," Scully said that guidance was too general to give lenders enough confidence that current actions wouldn't come back to bite them in the future.

"That sort of guidance was much too high-level, as well intentioned as it might have been," Scully said. "We've been desperately pleading with people for more specific and tangible and actionable guidance. … This whole idea of how forbearance actions are going to be treated has been at the top of every list of priorities."

The event that appears to have galvanized the new stance was a letter FDIC Chairman Jelena McWilliams wrote to FASB Thursday urging for a suspending of the Current Expected Credit Losses standard and adjustments to TDR accounting rules.

Three days later, the regulatory agencies stated that they "will not criticize institutions for working with borrowers

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and will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as troubled debt restructurings."

The FASB issued a separate statement Sunday agreeing with the approach.

"This guidance was developed in consultation with the staff of the FASB who concur with this approach and stand ready to assist stakeholders with any questions they may have during this time," FASB stated.

The statements are "useful" because they "help ward off what would otherwise be a regulatory problem," said Stephen Romaine, Tompkins' president and CEO.

"It prevents an additional wound from a regulator saying your TDRs have gone up because you went out of your way to help your clients by deferring payments," Romaine added. "They've made things abundantly clear. We greatly appreciate the fact the regulators have acknowledged the significance of this and why banks need to do this for their clients."

For Scully, Sunday's anouncement puts Howard and other banks in a better position to help their communities when recovery efforts begin.

Uncertainty surrounding TDRs "was creating a lot of angst about what it would do to your future ability to help the economy rebound when it's time for that to happen," Scully said.

FEDERAL RESERVE

Fed moves telegraph fears of prolonged liquidity crisis

By Hannah Lang
March 23, 2020

WASHINGTON — Taken together, the Federal Reserve's aggressive actions over the last week to shore up liquidity as the coronavirus rocks the global economy are an unprecedented commitment from the nation's central bank to ensure the smooth flow of credit.

The Fed has slashed interest rates to nearly zero, has established a number of credit facilities in order to lend to businesses and consumers, has encouraged banks to dip into their capital liquidity buffers and has pledged an unlimited amount of bond purchases — all to boost the economy and ultimately guarantee that businesses and banks have enough cash on hand.

But despite the Fed's moves, there are concerns that a shortage of corporate debt and other types of liquidity could develop into a deeper crisis, especially if the COVID-19 pandemic shows no signs of abating.

"The Fed has the same challenges the grocery stores have with dealing with people who are buying toilet paper," said Thomas Vartanian, the founder and executive director of the Financial Regulation & Technology Institute at George Mason University's Law School. "Hysteria and lack of confidence is a psychological factor that changes dynamics, and it has [in] every financial crisis over the last 200 years."

Fortunately, banks were armed with more capital and liquidity buffers after the 2008 crisis thanks to the Dodd-Frank Act, and experts largely agree that financial institutions are well equipped to handle periods of financial stress.

Yet other sectors lack the same protections, and a liquidity crisis at those businesses could result in a domino effect that would end up hurting banks all the same.

"Banks entered this crisis with strong levels of capital, thanks in large part to the restrictions Dodd-Frank put in place. Other corporations … enter this with often little cash on hand to weather a crisis and significant amounts of leverage," said Aaron Klein, a fellow at the Brookings Institution. "So the banking industry is better poised to weather some of this storm than many of the large corporate players who weren't required to save money for a rainy day."

Although banks may be prepared for a downturn, it is hard to know at what point economic stress would reach financial institutions, said Kathryn Judge, a professor at Columbia Law School.

"With things like the liquidity coverage ratio, [banks] have more liquidity on hand," she said. "But things are moving so quickly and in such big ways that I think it's almost impossible to rule out the possibility of a lack of liquidity proving problematic for some set of institutions."

Businesses have also been incentivized to pile on more debt because of the historically low interest rates since the financial crisis, which has led to record-high levels of corporate debt.

Much of that debt is held by nonbanks, which — unlike regulated financial institutions — are not held to capital and liquidity standards.

"What types of disruptions and whether they could occur not just in the real economy but also in banks is always hard to know," Judge said.

If delinquencies were to rise as businesses struggle to make ends meet, banks would lose out on loan payments, which would threaten their business models.

"It affects banks because banks are the ultimate creditors," Klein said. "If people default, banks and investors carry that risk."

For that reason, the Fed has been hyperfocused on ensuring that liquidity within the system is plentiful so that banks could continue lending in a downturn. But the longer the economic fallout from the coronavirus lasts, the more unknowns there are, Vartanian said.

"As soon as some sort of distress impacts financial markets, what happens is the natural shrinkage of credit availability because everybody wants to have enough cash available to weather the storm," he said. "And so the question becomes when that credit availability begins to be so severe that it causes constrictions in the marketplace."

The severity of the coronavirus pandemic "is going to test the solvency of countless small and large businesses," Klein said. But the key for the Fed is to be able to tell the difference between insolvency and illiquidity, he said.

"The epicenter here is business, not finance," Klein said. "The Fed regulates financial institutions; it doesn't regulate Main Street. But if it's deciding which corporate entities need liquidity and which are insolvent, that puts the central bank in a very different role."

Unlike the 2008 financial crisis that

originated in the financial sector, the economic turmoil the world is currently experiencing originated completely outside the financial sector, and is directly harming areas of the economy like restaurants, travel and hospitality and the hourly workers who hold so many jobs in those sectors. Solving the liquidity crunch for Wall Street is only part of the solution, Klein said.

"If the cause differs, then the treatment should differ," he said. "In this situation, you need to stabilize the economy to stabilize markets, not stabilizing markets to stabilize the economy."

That is where the role of government stimulus could come in to provide much-needed relief to affected workers, which could serve those people better than liquidity injections from the Fed.

"Fiscal stimulus is ultimately going to have to play the bigger role than the Fed," Judge said. The Fed cannot substitute for congressional action, and under a constitutional design, Congress holds the power of the purse."

For Vartanian, a stimulus package combined with the Fed's actions should help to shorten the duration of the crisis.

"The combination of what the Fed's doing and legislation that's enacted by Congress will probably provide the certainty and the confidence that the markets need to look at this as a short-term liquidity problem," he said.

But he also warned that it could become a longer-term problem if the coronavirus crisis is protracted.

The Fed's actions may have helped to get ahead of some of that by committing to essentially unlimited quantitative easing and doing "whatever necessary" to safeguard the nation's financial system, Judge said.

"Part of what we need to know is not just that the Fed is using the tools that we all understand that they have in their back pocket, but they are going above and beyond that and saying we will use whatever tools we might need to create as circumstances continue to evolve," she said.

CAPITOL HILL

Cheat sheet: What's at stake for banks, customers in stimulus battle

By Neil Haggertyine
March 23, 2020

WASHINGTON — The stakes are high for the financial services industry as lawmakers battle over the details of a new stimulus package to provide economic relief for businesses and consumers affected by the coronavirus outbreak.

Although Senate Democrats blocked a vote on a package sponsored by Majority Leader Mitch McConnell, R-Ky., a whole host of provisions benefiting banks, credit union and other financial firms appears still to be on the table in McConnell's plan and other proposals being floated on Capitol Hill.

McConnell's package included several industry-backed measures intended to make it easier for banks to lend and protect client funds. His bill would authorize an expansion of Federal Reserve liquidity programs, delay a controversial new accounting standard for loan losses, give the Federal Deposit Insurance Corp. the authority to guarantee business transaction accounts, provide regulatory relief for troubled debt restructurings, and ease a capital requirement for community banks.

Democrats, who decried Senate Republicans' package as putting corporations over workers and families, have offered up a number of their own proposals to help consumers in the midst of the pandemic. These proposals include a temporary cap on interest rates for consumer loans, a moratorium on negative credit reporting, and a temporary ban on overdraft fees.

A spokesperson for Senate Minority Leader Chuck Schumer, D-NY, said he was "working late into the night" with Treasury Secretary Steven Mnuchin and that they had a "productive meeting."

"Key disagreements remain regarding Treasury's broad discretion over industry-specific relief, the need for more aid to individuals, and the lack of funding for state and local governments," said Ed Mills, a policy analyst at Raymond James, in a note Sunday. "While these are substantive differences, we do not change our belief a deal will be struck."

Here is a cheat sheet of the proposals that have been floated by Republicans and Democrats as Congress is working out how to provide relief to banks and consumers during the national emergency.

Support for Fed's liquidity programs

The Senate Republicans' legislation would authorize hundreds of billions of dollars to come from the Treasury Department to be used to support the Fed's liquidity programs. The central bank has already pledged dramatic support for the liquidity markets on its own through various credit facilities.

The plan would provide liquidity to the financial system to support lending to eligible businesses, states or municipalities by purchasing obligations or other interests directly from issuers or in secondary markets.

The bill is estimated to provide over $400 billion in authorization for Fed liquidity programs. A Raymond James note Monday said the legislative package essentially calls for a program akin to a facility created after the 2008 crisis to support asset-backed securities collateralized by loans to consumers and businesses.

The Fed has already attempted to flood the markets with liquidity under its emergency lending authority. In a Fox News interview Sunday, Treasury Secretary Steven Mnuchin said the result of the government's efforts will be "up to $4 trillion of liquidity that we can use to support the economy."

CECL delay

For months, the banking industry has decried a new Financial Accounting Standards Board accounting standard for loan losses, known as the Current Expected Credit Losses standard, or CECL.

Members of both parties have warned that CECL will be overly burdensome to smaller banks, and several lawmakers have previously introduced legislation that would require regulators to study the impacts of CECL before the standard is implemented.

"This new standard makes it unnecessarily difficult for banks and credit unions to lend in a distressed economic environment," said Sen. David Perdue, R-Ga., in a Washington Examiner op-ed on Monday.

Large publicly traded banks had to start complying with CECL on Jan. 1 of this year, meaning the accounting standard was due to take effect in their first-quarter earnings report. But the Senate Republicans' proposal would relieve banks from complying with the new standard until Dec. 31 or when the public health emergency is terminated, whichever comes first. (Smaller privately held banks do not have to comply until 2023.)

Unlimited FDIC insurance on transaction accounts

Just like the 2008 financial crisis, the safety of deposits held in business transaction accounts that exceed the Federal Deposit Insurance Corp. limit has become a concern.

Twelve years ago, the FDIC was able to use its independent authority to provide a temporary guarantee on all noninterest transaction accounts. But the 2010 Dodd-Frank Act restricted the FDIC's ability to establish such a guarantee program in the future, requiring the agency first to seek a congressional resolution enacted by both chambers.

McConnell's package would give the FDIC the authority to guarantee business transaction accounts until Dec. 31.

Capital relief for community banks

Senate Republicans included in their coronavirus stimulus package a slight decrease in a key capital ratio for community banks.

The 2018 regulatory relief bill that President Trump signed into law authorized regulators to set the community bank leverage ratio — that small banks have the option to use in lieu of more complex capital measures — between 8% and 10%. The regulators set the ratio in the middle, at 9%. The McConnell package would lower that by one point to 8%.

Bankers have raised concerns that the ratio is currently too high.

The Republican lawmakers supporting the decrease in the community bank leverage ratio say it will shore up extra resources for community banks to meet their financial needs.

The 8% ratio would go into effect until the crisis is terminated or until Dec. 31, whichever comes first.

Troubled debt restructuring relief

The Senate Republicans' proposal would relieve banks from having to categorize loan modifications related to the coronavirus pandemic as troubled debt restructurings.

Critics of troubled debt restructuring have argued that they reduce the incentive for banks to work out new loan agreements with struggling borrowers, since they require banks to set aside more in capital reserves and they create other administrative hassles.

The relief from troubled debt restructuring would last until 60 days following the end of the public health emergency.

The Fed, FDIC, Office of the Comptroller of the Currency, Consumer Financial Protection Bureau, National Credit Union Administration and Conference of State Bank Supervisors encouraged banks on Sunday to make loan modifications for borrowers affected by the coronavirus, including payment deferrals, fee waivers, extensions of repayment terms and other insignificant payment delays. They said such loan workouts would not need to be categorized as troubled debt restructurings.

Temporary consumer loan interest rate cap

Sens. Sherrod Brown, D-Ohio, and Chris Van Hollen, D-Md., have called for a 36% interest rate cap on all consumer loans throughout the duration of the COVID-19 national emergency.

The cap already exists for loans to service members under the Military Lending Act. The senators have already supported legislation to extend that cap to all consumer loans permanently, although several House Democrats have wavered on the legislation and installment lenders have successfully lobbied against it.

The senators, in a letter to McConnell and Schumer on Saturday, said that the rate cap is appropriate during the pandemic as consumers and small businesses are faced with economic uncertainty.

"Consumers and small businesses who are starved for cash should not be … [gouged] by unscrupulous lenders; therefore, including a usury cap rate during this National Emergency is essential to protecting American consumers," Brown and Van Hollen wrote.

Ban on overdraft fees

Sen. Cory Booker, D-N.J., and Brown have called for a temporary ban on overdraft fees for the duration of the public health emergency.

Banks typically charge a $35 fee to consumers who make purchases or pay bills but don't have sufficient funds in their accounts to cover the payments. Some banks, including Ally and Bank of America, reportedly have already waived for pledged to refund overdraft fees on a temporary basis in response to the pandemic crisis.

The senators are calling for a ban on those charges for any transaction during the duration of the national emergency. They also want to prohibit banks from reporting consumers' use of overdraft coverage to credit reporting agencies and allow banks to extend a reasonable overdraft line of credit to consumers with insufficient funds.

"At the height of this pandemic, hardworking Americans should be protecting their health not worrying about big banks slapping them with fees for small overdraft amounts," said Brown, the top Democrat on the Senate Banking Committee. "This bill would allow them to keep money in their pockets when they need it most."

Moratorium on negative credit reporting

House Financial Services Committee Chairwoman Maxine Waters, D-Calif., is calling for a halt in negative credit reporting during the duration of the pandemic and 120 days thereafter.

And Sen. Brian Schatz, D-Hawaii, and Brown, similarly introduced a bill to provide an immediate four-month pause in consumers getting penalized on their credit reports for missed payments.

The legislation from Brown and Schatz would also provide free, unlimited credit reports and credit scores for a year from the end of the coronavirus crisis. And it would also extend protections to consumers' credit to future crises or disasters.

Waters' measure would prevent credit reporting agencies from lowering a consumers' credit score during the pause on negative credit reporting.

SBLF

A comeback for a crisis-era small business loan program?

By Jon Prior
March 23, 2020

As policymakers search for ways to pull the U.S. economy out of a tailspin caused by the new coronavirus outbreak, some industry observers are suggesting that they dust off a program created during the financial crisis that helped prop up many struggling small businesses.

The Small Business Lending Fund was formed in 2010 and run by the Treasury Department with $30 billion to give community banks a cheap source of capital that was then used to make loans to small businesses. The dividend these banks paid for the funding was lowered as they offered more loans.

More than 300 banks participated in the program, drawing about $4 billion and funneling a total of $19.1 billion in qualified loans to small businesses as of the third quarter of 2019, according to the most recent Treasury report. The bulk of the loans were made from 2011 to 2015 and all but four banks have repaid the capital they received and exited the program.

Industry officials point out the program was designed for a crippled banking system and not a public health crisis. One potential shortcoming is that it could take time for community banks to go through the process of writing loans to small business owners facing an unprecedented drop off in business that could potentially last for months.

But banks are eager for any ready-made program that has proven effective in the past.

Banks with less than $10 billion in assets qualified for the first version of the program. They were initially charged a rate of 5% for the capital they received from the Treasury, which fell to 1% if the bank increased its small-business lending by 10% or more.

If banks held onto the capital for too long and did not repay it after four-and-a-half years, the rate jumped to 9%

The SBLF program is “a great arrow in a quiver,” said Stephen Scurlock, director of government relations and public policy at the Independent Bankers Association of Texas.

The Federal Reserve is looking for any way to keep credit flowing. The Small Business Administration is scrambling to send emergency funds to prevent mass layoffs as banks are lining up to help the agency. Lawmakers are haggling over a $2 trillion stimulus package that’s including direct payments to individuals and small-business owners after a version failed to move forward in the Senate Sunday.

Chris Marinac, the director of research at Janney Montgomery Scott, said the idea of rebooting the SBLF program has been floated in recent days to complement any other programs the government puts in place.

About $4 billion of the original $30 billion was spent, according to the Treasury reports. But Marinac said that demand would be so great this time, a new version of the program would likely need even more than $30 billion this time around.

“The banking system really needs multiple workarounds or emergency solutions,” Marinac said. “A lot of banks don’t know what to do at this juncture. They have loans to hotels, they have borrowers at restaurants and small businesses who are laying people off because they work paycheck to paycheck.”

The Treasury was criticized last time for how slowly it rolled out the program. The first loan wasn’t made until the summer of 2011. The delay was caused as Treasury officials worked on the investment decision process, according to a 2018 study from the Congressional Research Service. Banking regulators at time agreed to advise the Treasury on the viability of banks that received funding from SBLF insteading of making specific investment recommendations as they did for the bigger Troubled Asset Relief Program, according to the CRS report.

There were also hang-ups crafting SBLF regulations to account for the different structures of community banks and community development financial institutions, or CDFIs, when selecting which ones would participate.

The original SBLF fund was designed to help businesses ramp back up following a prolonged downturn, and Paul Merski, group executive vice president of congressional relations and strategy at the Independent Community Bankers Association, said it could serve a similar purpose this time around.

“This program could be valuable to pick the economy back up when the demand is increasing,” Merski said.

CYBERSECURITY

Bank tech vendor Finastra hit with ransomware attack

By Penny Crosman
March 23, 2020

Finastra, a bank technology company in London that has more than 9,000 customers, including 90 of the top 100 global banks, was working Monday to bring servers back online that were hit by a ransomware attack late last week.

ome U.S. bank customers are affected by the incident, which occurred Friday. The company says it took some of its servers offline while it investigated the incident.

“As we bring our servers back online, we are working closely with [U.S. customers] to ensure they are operationally live,” a Finastra spokesperson said Monday morning.

Most Finastra customers contacted for this story did not respond. However, several banks posted notices on their websites saying some of their services were down and that they were working with their vendor to restore them. One Finastra customer, the

$2.9 billion-asset Southern Bank and Trust in Mount Olive, N.C., said that its mobile deposit function is temporarily unavailable and it is working with its technology partner to restore access.

Meanwhile, the $1.3 billion-asset State Bank of Southern Utah in Cedar City, which according to Finastra's website uses Fusion software for account opening and loan origination, seemed to be up and running.

Many U.S. bank customers of Finastra are users of the Fusion Phoenix core system from Misys or payment or mortgage software from D+H. Misys and D+H were merged to form Finastra in 2017. Others are customers of the mobile banking software provider Malauzai, which Finastra acquired in 2008.

For a bank, an outage in a core banking system — the software that handles all daily transactions — can be crippling. The Fusion Phoenix core system has been around for decades and is, technologically speaking, the beating heart for many banks. A shutdown in mobile banking is also devastating, especially during the coronavirus outbreak when banks are shutting down branches and encouraging people to connect over mobile and online banking.

Finastra did not offer a timeline for when its customers' services would be up and running.

"Because our solutions each have their own nuanced processes to move from being available to operationally live, each of our products will be back once readiness steps are completed," Chief Operating Officer Tom Kilroy in a statement posted Sunday night on the Finastra website.

The company does not think any customer or employee data was accessed or removed, nor that any clients' networks were harmed, Kilroy said. Customers running Finastra software in their own environments were not affected, according to Kilroy. Finastra brought in an independent cybersecurity firm to assist in investigating, containing and eliminating the threat, he said.

The company has not said how the intrusion occurred or whether it has paid ransom to the attackers.

Al Pascual, a longtime security analyst who is the COO of Breach Clarity, said he is worried about what happens to the source code in an attack of this nature.

"If someone gets ahold of that source code, they may not find a vulnerability right away, but in time, they certainly could," he said.

Finastra "is going to have to be very transparent about what was taken," Pascual said. "Banks and credit unions are going to have regulators come in and want to understand the extent of what really happened, and they're going to have to open everything up."

There will be more incidents like this in the next few months, Pascual warned, as hackers take advantage of the disruption caused by COVID-19.

"I would say this is a canary in a coal mine," he said. "These aren't going to go away."

CREDIT REPORTING

Dems' bid to pause negative credit reporting gets pushback from industry

By Kevin Wack
March 23, 2020

As the economic damage from the COVID-19 pandemic multiplies, the credit scores of millions of U.S. consumers will likely suffer in the coming months unless effective prevention measures are implemented.

Congress must decide quickly whether to require the financial industry to take steps aimed at averting a flood of derogatory reports to the credit bureaus. Industry officials insist that they already have the tools necessary to do so, but many Democrats on Capitol Hill are calling for more forceful measures.

Legislation introduced last week by Sens. Sherrod Brown, D-Ohio, and Brian Schatz, D-Hawaii, would require a four-month moratorium on all negative credit reporting. People whose economic fortunes suffer longer-lasting damage would get additional protection.

Those kinds of consumer protections are not currently included in the emergency relief legislation under consideration in the Senate, where Republicans hold a majority. But the credit bureaus are also facing pressure from congressional Democrats to implement a moratorium on their own.

Last Tuesday, more than 70 House Democrats urged the CEOs of Experian, Equifax and TransUnion to temporarily cease reporting missed payments on hospital bills, mortgage payments and credit card debt.

"Adverse credit events caused by COVID-19 will have crippling, long-term and devastating effects for those who can least afford it, if credit reporting agencies are unwilling to adapt," the House Democrats wrote in a letter.

But the credit bureaus argue that suppressing the flow of negative information about particular borrowers would lead to less accurate loan decisions, and that lenders would have to compensate either by charging higher interest rates or reducing the provision of credit.

"We think that's the wrong approach," said Francis Creighton, president and CEO of the Consumer Data Industry Association, a trade group for the credit bureaus.

In situations where the borrower has been granted forbearance, which is an agreement to delay a payment obligation, the lender may elect to inform the credit bureaus that the obligation was paid as agreed, Creighton noted.

He also said that when lenders can use a special code to flag missed payments that are tied to unforeseen circumstances, such as the ongoing pandemic. Companies that rely on information from the three bureaus to calculate credit scores treat this specially coded information neutrally, so that it neither helps nor hurts the borrower, he said.

"That's worked in the past. We think it can work here," Creighton said.

Lenders have one additional option to prevent damage to consumers' credit scores, according to David Stein, an attorney at Covington & Burling who frequently represents financial industry clients. He said that lenders can stop reporting data to the credit bureaus altogether, though he acknowledged that doing so would degrade the usefulness of the reporting system.

For their own part, the three credit bureaus have been encouraging consumers to talk to their lenders to see if assistance is available, and to pay whatever they can afford. Equifax and TransUnion are also advising consumers that they can add a comment to their credit reports noting that they are unable to pay because of the pandemic.

Consumer advocates say these kinds of steps are insufficient, since many lenders will continue to report negative information to the credit bureaus. Lenders that furnish information to the three bureaus are not required to use the special codes when borrowers miss payments in disaster situations.

A 2018 report by the Consumer Financial Protection Bureau analyzed the use of those codes following Hurricane Harvey, which devastated the Houston area in August 2017. It found that three months later, less than 40% of the borrowing relationships listed on consumers' credit reports in the Houston metro area had the natural disaster code.

The CFPB also determined that the majority of consumer lenders did not use the code at all in the wake of Hurricane Harvey, though larger lenders were more likely to use it than smaller lenders.

Voluntary measures by the financial industry will not work for the bulk of consumers, said Ed Mierzwinski, senior director of federal consumer programs at the U.S. Public Interest Research Group. He said that the Senate Democrats' legislation would protect consumers in three ways: by stopping lenders from reporting negative information, by barring the credit bureaus from placing negative information on credit reports, and by requiring the removal of such information if it appears.

For consumer advocates, an advantage to pressuring the major credit bureaus is that there are only three of them. "They're a choke point," Mierzwinksi said.

TREASURY DEPARTMENT

Mnuchin backs designating financial sector workers as 'essential'

By Hannah Lang
March 24, 2020

WASHINGTON — Treasury Secretary Steven Mnuchin said Tuesday that he supports federal guidance identifying financial services workers as "essential critical infrastructure workers" with a unique responsibility to continue operations during the coronavirus pandemic.

In March 19 guidance, the Department of Homeland Security's Cybersecurity and Infrastructure Security Agency labeled 16 sectors as crucial for "both public health and safety as well as community well-being."

In particular, the agency said financial services workers that provide consumer access to banking and lender services, maintain systems for processing financial transactions and support financial operations are considered essential personnel.

Third-party service providers that deliver core services are also considered essential, said Mnuchin.

"The American people need access to financial sector services, and State and local governments must ensure the continuity of critical financial sector functions," Mnuchin said in a statement. "We are dedicated to working closely with the financial services sector to ensure the safety of the workforce and continuity of operations to support our Nation's economy and all hardworking Americans."

The Trump administration's guidance said that workers in a designated "critical infrastructure industry" have a "special responsibility" to maintain a normal work schedule as the country grapples with the coronavirus pandemic.

"We recognize that State, local, tribal, and territorial governments are ultimately in charge of implementing and executing response activities in communities under their jurisdiction, while the Federal Government is in a supporting role," the DHS guidance said. "As State and local communities consider COVID-19-related restrictions, CISA is offering this list to assist prioritizing activities related to continuity of operations and incident response, including the appropriate movement of critical infrastructure workers within and between jurisdictions."

FINTECH

Challenger bank Revolut launches in the U.S.

By Penny Crosman
March 24, 2020

In what may be a sign of optimism and better times ahead, the British challenger bank Revolut is going live in the United States on Tuesday. It joins European peers N26, the German challenger bank that went live in this country this past summer, and Monzo, a Brit rival that has been ramping up operations in the U.S.

Revolut is based in London and has 10 million customers in Europe. It offers what it calls a "Financial Super App," a single app where consumers can manage all aspects of their financial lives.

So far, its main offerings look like those of other challenger banks: a mobile app, a deposit account (the funds are held at partner Metropolitan Commercial Bank in New York), a debit card, quick account opening, budgeting tools and spending analytics, immediate access to paycheck funds and low fees.

It also offers some payment features not all the rest have: Users can buy and sell 28 currencies and send and receive money internationally at the interbank exchange rate. Revolut customers can send and request money to each other for free, split a bill and round up every card purchase to the nearest dollar and stash away their spare change. They can freeze and unfreeze their card and turn payment features off and on from within the app. Revolut also offers a disposable virtual card, whereby virtual card details are refreshed each time a transaction is made online.

The company says it intends to roll out additional features and services in the near future, including cryptocurrencies, commission-free stock trading and savings products.

In four years, Revolut has raised more than $800 million in funding. Last month, it raised $500 million in Series D funding at a valuation of $5.5 billion. Revolut backers include Ribbit Capital, Index Ventures, DST Global and TCV.

DIGITAL BANKING

Sen. Brown proposes digital account for unbanked households

By Neil Haggerty
March 24, 2020

WASHINGTON — Sen. Sherrod Brown, D-Ohio, is calling for legislation that would require banks to offer free digital accounts to consumers without bank accounts so they could easily access cornonavirus relief funds.

As Congress and the Trump administration consider sending individuals coronavirus relief payments in the form of checks, Brown is proposing a “FedAccount” digital wallet that would allow consumers to receive money quickly and inexpensively. Roughly 8.4 million U.S. households do not have bank accounts, according to a 2017 report from the Federal Deposit Insurance Corp.

“My legislation would allow every American to set up a free bank account so they don’t have to rely on expensive check cashers to access their hard-earned money,” said Brown, the top Democrat on the Senate Banking Committee.

FedAccounts would have no account fees or minimum balance requirements and would be opened at local banks and post offices, under the legislation. The Federal Reserve would be responsible for overseeeing the FedAccount program.

Account holders would receive debit cards, online account access, automatic bill-pay, mobile banking, and ATM access. Each post office or bank with less than $10 billion of assets woud be reimbursed each quarter by their regional Federal Reserve bank for the actual and reasonable operational costs incurred in offering the pass-through digital dollar wallets.

BANKTHINK

Bankers need to come at this crisis from a different perspective

By Dave Martin
March 23, 2020

Within three hours, five banker events I was scheduled to speak at postponed or cancelled. That’s when things got real for me.

Up until then, I had been philosophizing about possible changes and business disruptions with lots of industry friends. It was all hypothetical . . . until it wasn’t.

I stood there realizing that millions of folks at that very moment were experiencing similar events. Many people likely initially thought, “Well, maybe this isn’t really that big of a deal.”

But when everyone’s worlds are impacted in a similar way, the realization kicks in that it is a big deal.

As national and local leaders begin taking action to address current challenges and, hopefully, avoid more drastic impacts of a pandemic, their very actions can trigger further unrest.

I recall many conversations with bankers in recent times about dealing with change. If they know certain things need to be done in order to position their companies to succeed in the future, they should be prompted to make necessary changes rather than panic and look to assign blame.

The most dangerous thing to do in times of change and evolution is to do nothing. Those who are sitting still, thinking that the exact business model that got them through today will also be the best model for the future, are in for unpleasant surprises.

Similarly, when political and business leaders are acting to address what in many ways is an unprecedented challenge, the very fact that they are implementing change seems to cause people unrest. That’s natural.

As I often tell leaders about guiding their teams through change, “Fear and resistance to change doesn’t mean you are irrational people. It means you are people.”

Effective leaders reassure their people through those periods of fear and hesitation.

In recent weeks, I’ve spoken with many bankers scrambling to ensure that their employees and customers are taken care of during this crisis. In times like this, leaders are also reminded of the primal connection customers have to physical bank branches and bankers.

Even digital-first customers who seldom use a physical branch want to see that branches are open, accessible and functional. Providing that support is going to be more challenging in the weeks ahead for obvious reasons.

For instance, branch employees are just as affected by the sudden need for childcare brought on by mass school closings. Bank leaders across the country are being as flexible and supportive as they can in an attempt to help their teammates address these arising challenges.

Another obvious challenge is keeping employees as protected as possible from contact with the coronavirus. Some banks are moving to drive-thru-only operations where possible. Others are being far more restrictive on branch access.

Many bankers are adjusting their branch hours to address staffing challenges. For example, a friend of mine who manages a very large branch program has reduced location hours and adjusted operations to allow two employees to run a branch.

Chatting with this banker and others about the current situation, a common concern was voiced. In a time in which everyone is giving teammates the benefit of the doubt when it comes to making personal decisions about whether they can and should come to work, there is the danger that some of their best employees will be overutilized.

For bank leaders, constantly thanking their teams and reminding them of how appreciated their commitment and efforts are during this time are vital.

Everyone is being reminded of the importance banks and bankers play in the lives of customers. Stereotypes aside, times of uncertainty highlight those whom citizens truly rely upon.

Bankers across the country are providing support and, also as important, a level of stability greatly needed during this time.

In challenging times, we see the best in people. That isn't always what leads the newscasts, but it's out there.

One place to find it is the banking industry. Be proud of that fact and never forget it.

Dave Martin is a consultant specializing in retail banking strategies, including in-store branches. He is the founder of the retail bank performance company bankmechanics.

FEDERAL RESERVE

Fed's Bullard calls for three-month work break to fight pandemic

By Bloomberg News
March 23, 2020

Federal Reserve Bank of St. Louis President James Bullard said that the U.S. should declare the equivalent of a three-month break for nonessential businesses to fight the spread of the coronavirus.

Bullard recommended "the president and Congress declare a 'National Pandemic Adjustment Period,' providing a natural focal point for the expectations of policy makers and Americans at large concerning what is happening." The three-month period could be shortened or extended depending on how the virus progressed, he wrote in a posting on the bank's website Monday.

"The first goal during the NPAP is to intentionally reduce (reduce!) economic activity in order to meet public health objectives," he wrote.

The adjustment period would call for special policies from Washington to protect households and businesses from the massive shutdown necessary to reduce the spread of the virus, the St. Louis Fed leader said.

The resulting economic decline, concentrated in the second quarter, shouldn't be viewed as a recession because it's an intentional strategy, and government fiscal support shouldn't be thought of as stimulus.

"A better concept is that we should strive to 'keep everybody whole' during" the adjustment period, he said.

Bullard also reiterated that unemployment insurance should replace Americans' lost pay close to or at 100%, and that the unemployment rate could reach 30% in the next quarter, while economic activity may be halved. The economic data need to be viewed in light of the public health emergency rather than as a normal period, he said.

WORKFORCE MANAGEMENT

JPMorgan plans firm-wide hiring freeze amid virus uncertainty

By Bloomberg News
March 24, 2020

JPMorgan Chase froze hiring across most of the firm as millions of people stay at home to help stem the spread of the coronavirus, according to people familiar with the matter.

The bank asked managers in businesses including the corporate and investment bank, the consumer unit, and the asset- and wealth-management group to review job postings and pull listings for roles that don't need to be filled immediately, said the people, who asked not to be identified discussing the private plans.

The global hiring restrictions are a reaction to uncertainty about the direction of the global economy and logistical challenges related to arranging in-person interviews with job candidates, the people said.

JPMorgan, the biggest U.S. bank, also delayed bringing new recruits into the bank until April 20, but will pay new hires from their original start dates, another person said.

A company spokesperson declined to comment.

The pause comes as the rapid spread of the coronavirus that's killed more than 15,000 people globally has prompted governments to restrict large gatherings and lock down borders, fueling predictions of a global recession and upending daily routines for millions of people.

Some JPMorgan operations such as home lending, where business has ramped up due to low interest rates, are excluded from the freeze, the people said.

JPMorgan said last week it would temporarily shut about 1,000 of its branches across the country, about 20% of them , and has shortened operating hours at those that remain open. ❑