“So we beat on, boats against the current, borne back ceaselessly into the past.”

– F. Scott Fitzgerald's "The Great Gatsby" was published on this day in 1925
and Guidance

Conference of State Bank Supervisors President and CEO John W. Ryan sent a letter yesterday to U.S. Treasury Secretary Steven Mnuchin and U.S. Small Business Administration Administrator Jovita Carranza urging more clarification and guidance on the $349 billion Paycheck Protection Program established in the Coronavirus Aid, Relief, and Economic Security Act.

Statement by John W. Ryan:

“State regulators and the banks they charter are on the frontlines working with struggling small businesses to provide them with Paycheck Protection Program (PPP) loans. While we recognize the speed in which the program had to be created, there are many issues that are hindering loan distribution.

Overall, more communication, accessible systems and interfaces, and transparent reporting will enable these banks to effectively distribute the loans in a manner that actually helps small businesses and local economies.

There needs to be complete public disclosure of where PPP loans have been made. This information helps local policymakers as they create programs that can complement the federal response with clear visibility into where those funds are flowing. The states and federal government share the same objective of ensuring economic recovery as quickly as possible.”

COVID-19 Continues to Wreak Havoc on U.S. Employment

By Thomas Siems, CSBS Senior Economist and Director of Research
Here we go again. After nearly 10 million Americans lost their jobs during the previous two weeks of March, this week’s initial weekly jobless claims added another 6.6 million. With these additional job losses, total nonfarm payroll employment in the United States has likely fallen to around 135 million workers, a level not seen since early 2013. Moreover, a rough calculation suggests the U.S. unemployment rate would immediately rise from its February level of 3.5%, a 50-year low, to roughly 13.6% today, an unprecedented monthly increase of more than 10 percentage points.

Similar to my blog from last week, I’ve examined the impact these job losses might have on state-level unemployment rates. I’ve provided snapshots over the last three weeks to illustrate the devastating blow that voluntary and forced business closures and shelter-in-place measures have had on employment levels from the spread of COVID-19. Chart 1 shows the state-level unemployment rates for February 2020, before COVID-19 was generally considered a major concern; Chart 2 shows the potential unemployment rate for each state projected by factoring in the March 21 initial jobless claims data; Chart 3 shows the potential unemployment rates projected by including last week’s (March 28) initial jobless claims data; and Chart 4 shows the potential unemployment rates by adding in this week’s (April 4) initial jobless claims numbers.
Based on these calculations, 10 states currently have unemployment rates exceeding 16%. Even during the worst period of job losses in the 2008-09 financial crisis, no state exceeded a 14% unemployment rate. The states with the largest projected unemployment rate increases are expected to be Michigan (3.6% to 20.3%), Hawaii (2.7% to 19.2%), Rhode Island (3.4% to 19.8%), Pennsylvania (4.7% to 21.0%) and Nevada (3.6% to 19.3%). These five states are also projected to have the highest state-level unemployment rates in the union. For the most populous states, the projected unemployment rate increases are as follows: California (3.9% to 14.1%), Texas (3.5% to 8.7%), Florida (2.8% to 7.3%) and New York (3.7% to 12.0%).
Job losses are likely to continue to mount throughout April while the government’s COVID-19 social distancing guidelines remain in effect. As long as businesses stay closed and consumers stay home, decreases in spending and incomes will continue to result in economic contraction and more job losses.

But at some point?hopefully this month, maybe next month, conceivably later?the U.S. economy will reopen for business. I remain optimistic that interventions by the Federal Reserve and the federal government will provide a necessary bridge for consumers and businesses to weather the significant economic retrenchment caused by the spread of COVID-19 across America. And I am encouraged by news of the nation’s new patriots?health care workers, grocery store clerks, delivery folks, bankers, etc.?who are stepping up to help their fellow Americans make it through this crisis. Together, we will overcome. Take care of yourself and take care of others.

*My thanks to Brennan Zubrick and Jake Vick on the CSBS Data Analytics Group for their help creating these charts.*

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**In Search of the Silver Lining**

By Michael L. Stevens, CSBS Senior Executive Vice President

Last week, CSBS released the first quarter 2020 Community Bank Sentiment Index. The data collection occurs during the last month of the quarter, when banks across the country are asked to express their outlook for the local economy. March was an interesting month to collect data as the impact of COVID-19 became significantly more concerning as it went on.

The overall index dropped 32 points to 91, representing a significant shift in sentiment from very positive to solidly negative. To further demonstrate how much the situation
changed during the month, the banks that completed the survey in the first half of the month generated an index of 98. The bankers that completed the survey in the second half of the month came in at 73.

How do you find signs of hope? As I was reviewing our CBSI web page trying to find something positive to write about, I discovered that our sneaky and creative data analytics team had built an interactive dashboard. This new tool allows you to click on a response to a question and see how those bankers responded to the other index questions. Let me warn you, this becomes quite addictive.

In the survey, 53% of bankers believe profits will be lower in the future, a very logical response. Of those bankers, however, only 25% felt that they would reduce capital expenditures in the future, and only 6% felt they would reduce their operational footprint (see nearby chart). When it comes to value, 59% of these bankers felt franchise value
would be greater or stay the same in the future.

State and federal regulators have been issuing a series of guidance to encourage and help bankers assist their customers. This is something that community bankers inherently know how to do. The responses to the survey affirm we are going to go through a very challenging period. But there will be opportunities on the other side. Opportunities to expand in ways that may be hard to see today. Opportunities to deploy new technology. Opportunities to serve new customers and existing customers who are going to do business in new and creative ways.

There is in fact a silver lining.

**Simply Stated #21: COVID-19 and Community Bankers: A Data-Driven Dialogue Between Banker and Regulator**

You don’t need me to tell you what the economic data is saying right now. All over the country, businesses are closed, workers are being furloughed or laid off, and businesses and consumers alike are looking at what they have saved and trying to figure out how much longer they can go in lockdown.

I want to focus on the local economic aspect of the pandemic as seen through the lens of the primary lenders to small businesses and rural and suburban communities. What are community bankers saying about their local economies and future business activity? What are they telling their regulators? And what do the regulators have to say back?

I’m Matt Longacre, and this is Simply Stated.
Economic Insights Webinar

CSBS Senior Economist Tom Siems walks state regulators through the current state of the U.S. economy, possible projections for future quarters, and answers questions about differences in regional and state trends.

Download the full presentation [PDF]

Proposed CRA Modernization Needs More Interagency Consensus and Study

The modernization proposal for the Community Reinvestment Act (CRA) raises a number of concerns for state regulators that should be addressed before moving forward with CRA reform, CSBS said in a letter sent this week to the OCC and FDIC.

Primary among the concerns is the fact that the proposed rules have been issued by only the OCC and FDIC without the Federal Reserve. As a result, banks would be subject to different federal CRA rules depending on their charter or chosen primary federal regulator, which would result in legal and practical issues for banks and regulators alike.

Additionally, CSBS believes that more information is needed before reforming the CRA as the agencies proposed. Among the areas of concern are how CRA assessment areas are defined. The agencies have not gathered the information needed to understand whether the proposed assessment area approach is necessary or appropriate. The proposed revisions to the data collection and reporting requirements also are duplicative and may impose an unnecessary burden.

Small banks may face relatively greater burden because the burdensome aspects of the
proposed rule are distributed broadly for all banks, while the relief provided is largely for
the larger institutions. State regulators are concerned that it may not even be feasible for
small banks to opt into the rules. CSBS asked the agencies to consider recalibrating the
proposal to provide relief for small banks.

CSBS also requests that the federal agencies clarify the impact of the proposed rule on
wholesale and limited purpose banks and consider providing greater incentives for
establishing and retaining bank branches in low income and underserved areas.

Revised Interagency Statement on Loan Modifications

The federal financial institution regulatory agencies (the agencies), in consultation with
state financial regulators, issued a revised interagency statement encouraging financial
institutions to work constructively with borrowers affected by COVID-19 and providing
additional information regarding loan modifications. The revised statement also provides
the agencies’ views on consumer protection considerations.

The revised statement clarifies the interaction between the interagency statement issued
on March 22, 2020, and the temporary relief provided by Section 4013 of the Coronavirus
Aid, Relief, and Economic Security Act, which was signed into law on March 27, 2020.
Section 4013 allows financial institutions to suspend the requirements to classify certain
loan modifications as troubled debt restructurings (TDRs). The revised statement also
provides supervisory interpretations on past due and nonaccrual regulatory reporting of
loan modification programs and regulatory capital.

The agencies encourage financial institutions to work with borrowers and will not criticize
institutions for doing so in a safe-and-sound manner. The agencies view prudent loan
modification programs offered to financial institution customers affected by COVID-19 as
positive and proactive actions that can manage or mitigate adverse impacts on borrowers, and lead to improved loan performance and reduced credit risk.

The agencies’ examiners will exercise judgment in reviewing loan modifications, including TDRs, and will not automatically adversely risk rate credits that are affected by COVID-19, including those considered TDRs. Regardless of whether modifications are considered TDRs or are adversely classified, agency examiners will not criticize prudent efforts to modify terms on existing loans for affected customers.

Attachment: Interagency Statement (Revised)
The policy statement and guidance issued last Friday will facilitate mortgage servicers’ ability to place consumers in short-term payment forbearance programs such as the one established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act).

Under the CARES Act, borrowers in a federally backed mortgage loan experiencing a financial hardship due, directly or indirectly, to the COVID-19 pandemic, may request forbearance by making a request to their mortgage servicer and affirming that they are experiencing a financial hardship during the COVID–19 pandemic. In response, servicers must provide a CARES Act forbearance that allows borrowers to defer their mortgage payments for up to 180-days and possibly longer.

The policy statement clarifies that the agencies do not intend to take supervisory or enforcement action against mortgage servicers for delays in sending certain early intervention and loss mitigation notices and taking certain actions relating to loss mitigation set out in the mortgage servicing rules, provided that servicers are making good faith efforts to provide these notices and take these actions within a reasonable time.

To further enable short-term payment forbearance programs or short-term repayment plans, mortgage servicers offering these programs or plans will not have to provide an acknowledgment notice within five days of receipt of an incomplete application, provided the servicer sends the acknowledgment notice before the end of the forbearance or repayment period.

The guidance also reminds servicers that there is existing flexibility in the rules with respect to the content of certain notices.

Finally, to assist servicers experiencing high call volumes from consumers seeking help, the policy statement also confirms that the agencies do not intend to take supervisory or enforcement action against mortgage servicers for delays in sending annual escrow statements, provided that servicers are making good faith efforts to provide these statements within a reasonable time.
Another week, another concerning round of economic data. We talk about the new jobless claims, what community bankers are seeing on the ground, and how state regulators are working to help bankers and their customers. There’s plenty of new announcements and initiatives ongoing to help mortgage servicers. But will it be enough to keep the industry afloat? And CSBS has put together some resources for consumers trying to navigate this trying time.

It’s Thursday, April 9, this is Matt Longacre, and here’s the latest as of 1 PM Eastern:

**Headline Economic News for April 9**

The U.S. Department of Labor announced Thursday that weekly initial jobless claims were at 6.6 million. With last week being revised up to 6.9 million, and the 3.3 million jobless claims before that, the three-week total in initial jobless claims now represents roughly 1 in 10 of all Americans in the workforce.

As with previous weeks, CSBS will publish a blog looking at how those numbers will likely impact unemployment on a state-by-state basis.
Another way of measuring the performance of a local economy is to listen to community bankers, or the people who provide the financing for businesses and consumers. The Community Bank Sentiment Index attempts to capture the outlook of local economies based on the view of those community bankers. The Index is presented in a single number, where 100 means a neutral sentiment, and below 100 would be a negative sentiment. In Quarter 1 2020, the Sentiment Index number was 91, a 34 point drop from Quarter 4 2019.

CSBS Senior Economist Tom Siems explains...

State regulators are keenly aware of the challenges facing these community banks in helping their customers. CSBS Senior Executive Vice President Mike Stevens gives some insight...

We have included charts, interactives, and more to see what Community Bankers think in the show notes.

**News This Week in Mortgage Servicing**

Ginnie Mae announced late last week that it will implement a pass-through assistance program where it will advance principal and interest payments to investors on behalf of servicers who are short on cash.

The $2 trillion CARES Act requires servicers to give forbearance to mortgage borrowers for up to 180-days. However, servicers (the companies who take the borrowers' payments and distribute them to investors, state governments and insurance companies) are still on the hook for paying investors, even if the borrower does not pay. With a large surge in unemployment, servicers may not have enough cash to pay investors.

Congress required mortgage companies to give forbearance on borrower payments during the crisis but failed to include a lending program for mortgage servicers to help
them cover the resulting cash crunch in its recent emergency funding package, H.R. 748 (116). The industry is now pushing the Trump administration and the Federal Reserve to set up such a program.

State regulators and the industry are still concerned that the steps by Ginnie Mae will not be enough. CSBS wrote a letter to Treasury and the Federal Reserve asking for an emergency lending facility to be created for mortgage servicers.

A separate type of regulatory relief will come to mortgage servicers, however. The Federal agencies announced this week that banks and others won’t be punished for missing some communications deadlines for mortgage servicing. Typically, mortgage servicers have five days to send notices to consumers confirming that they have been granted a request to modify a mortgage. Given that the CARES Act allows forbearance on federally-backed mortgages for 180 days, and given the surge in unemployment, many servicers are overwhelmed with requests and calls. The updated guidance only requires servicers to send notice before the 180-day forbearance period is over.

**An Advisory for Consumers**

State regulators have warned consumers about a surge in scams related to the COVID-19 pandemic. Scammers have posed as medical authorities offering prevention or treatment for COVID-19, as charities offering assistance to those affected by the virus, as debt counselors or attorneys, and even as mortgage or student loan servicers.

Agencies and consumer advocates are collecting information on these common scams and how to spot early warning signs. You can learn how to better protect yourself by visiting the [CSBS COVID-19 Consumer Resources page](#) linked in the show notes, which details the most common types of scams, provides information on government relief to consumers, and links to useful resources for those economically impacted by the virus.
CSBS also knows that the current moratoria on evictions and foreclosures and the various mortgage forbearance programs may be confusing. So, we have produced a helpful chart to show how long forbearance and moratoria will last based on federal loan type. You can find details in the show notes.

In addition to CSBS resources, you can check the irs.gov homepage to learn more about the upcoming economic relief checks and see if you need to take any action to receive it. Also, if you are struggling to make on-time payments on your mortgage, the CFPB has provided a helpful video to explain how to take advantage of mortgage forbearance, or the ability to pause or delay payments on your mortgage during the pandemic.

As you navigate this difficult financial time, put your trust in state and federal regulators – in your home state, at the CFPB, at the IRS, and at other federal agencies – to provide you accurate and timely information. Be wary of imposters of these agencies, and make sure you are on a legitimate government website when entering information.

That’s all for April 9.

If your state or federal agency is taking action, if you’ve got a consumer resource, or if you’ve got financial news, please share it with us. You can send your news and activity to newsroom@csbs.org, and we will go through responses to share the most relevant news of the day.

Thank you. Please stay tuned, and bear with us as we work to bring all the news to you in the coming weeks.

Back to Top