

March 24, 2020 – Conference Call with Rep. Tom Reed

On Tuesday, March 24, Rep. Tom Reed (R-23rd Congressional District) held a conference call with a number of community banks (and credit unions) within his congressional district. The Congressman said we are in the midst of both a serious public health crisis, and an economic crisis as well. While he noted there are no structural problems with the economy, the fact it was shut down "virtually overnight" has resulted in liquidity problems and a myriad of challenges. He also introduced two key staffers participating in the call: David Bridges, who handles his tax and financial services issues, and Logan Hoover, his Legislative Director. (Contact information will be forthcoming.)

Rep. Reed urged financial institutions to be as "flexible" as possible and make every effort to keep providing funding for customers/consumers/businesses (especially small businesses).

- He noted the Fed has taken enormous, historic steps, putting some \$700 billion into the system utilizing a number of different tools.
- He noted the Small Business Administration (SBA) has "ramped up" (including on 7(a) loans, etc.), and encouraged financial institutions to work with them to help small businesses.
- He commented that the Treasury Secretary has urged federal banking regulatory agencies to not apply "pre-coronavirus standards" and to not indulge in harmful "nitpicking" practices regarding financial institutions, but rather to expect them to demonstrate "good faith"

Rep. Reed discussed the "Phase 3" legislative relief package currently being negotiated in the U.S. Senate. He commented the package is intended to keep liquidity in the system, to the benefit of consumers, businesses and including banks. It is expected to provide:

- Some \$300 billion in payroll assistance
- A deferral of payroll taxes to be spread over up to two years, and
- Direct money payments to individuals.
- There are also expected to be changes to the tax code.

The package is designed to help "re-open" financing, preserve liquidity and boost lending (e.g., through SBA). David Bridges noted that Phase 3 may include addressing the community bank leverage ratio and delay CECL standards to help provide banks with more flexibility.

The call was then opened up for comments.

- One banker noted concerns over potential new mandates regarding new documentation requirements pertaining to new programs under Phase Three and other remedies. The Congressman noted the need for regulatory flexibility, and noted once again that financial institutions should "show good faith" and have a paper trail to

document that. The banker noted the need to hopefully avoid "harmful loopback:" down the road.

- Rep. Reed noted there will clearly be a need for a "Phase 4" package, to further address economic revitalization, and noted financial service institutions would be key players in that process. He emphasized financial institutions should never be "villainized" or penalized, that none of this was their fault -- or, indeed, anyone's fault.
- Rep. Reed also emphasized the federal government is and must be "the backstop", that there is a need to keep as many people employed as possible (not only for compensation, but to retain health benefits), and he also noted the Phase 3 package also would provide significant assistance to unemployment and to those involved in Gig employment, as independent contractors, etc.
- Another banker raised the question of guidance from Fannie Mae and Freddie Mac regarding mortgages sold but still serviced by banks. Rep. Reed and David Bridges noted they have not seen specific guidance on this as yet, but it is being discussed and information would be shared with IBANYS and others on the call once it is worked out.
- The same banker (and several others) raised concerns regarding the potential for mixed messaging and conflicting mandates from the federal and New York State authorities and regulators on the identical subjects. They stressed federal-state regulatory cooperation is essential. Rep. Reed assured the participants he has been working with New York State officials (including members of the NYS Legislature) and would continue to do so, to address that concern.
- One banker urged consideration of a program similar to the Transaction Account Guarantee (TAG) initiative back in 2008-09. David Bridges said he has not yet seen this issue addressed. The same banker added he is concerned many small businesses only have approximately 15 days of cash on hand, and that the SBA assistance--while very important--may not be available on a timely basis. He suggested the federal government provide a guarantee to banks which step to assist in the interim. Rep. Reed noted that yes, this will be forthcoming.
- Another banker said "clarity is key" going forward, that financial institutions are providing vitally important services, must not be villainized, and also noted that many financial institutions, as public companies, must report accurate first quarter results.
- Another banker noted the need to focus on capital relief, which will be key moving forward for banks in their ability to continue lending in the manner needed. The issue of capital was not in Phase 3, according to David Bridges, but might be addressed in Phase 4.
- Another banker raised the issue of pension plan funding, requirements involved in funding them, the potential for significant hits down the road.
- The same banker raised the issue that the FHLB also buys loans, and that there is a need for guidance from them just as from Fannie and Freddie. He also stressed a reduction in rates would be greatly appreciated.
- The same banker raised the issue of accounting rules, as they pertain to equity securities (specifically, to mutual fund purchases).
- He also urged consideration of guidelines on mortgage escrow payments. Rep. Reed agreed that attention should be paid to these types of "future impacts and hits" and the need for future protection of equity.
- Rep. Reed encouraged financial institutions to take advantage of incentives, keep their own employees on payroll, and noted that companies should be aware that payroll incentives are retroactive and that employees who left the payroll would be able to rejoin the payroll.

Rep. Reed concluded the call by discussing the need, moving forward, to find the proper balance between addressing the public health crisis and the economic crisis and need for revitalization. He noted a regional approach may be one approach, wherein areas that do not have severe "hot spots" of the virus could start "turning the lights on and re-opening businesses, while regions that have significant rates of infection would not. He noted in his district there is a Regional Economic Revitalization team forming and urged financial institutions to become involved. He called local financial institutions "the backbone" and as being "on the front lines" and pledged he would "have their back."