

COVID-19 – April 9 Update

There are a number of new items this morning, including a new interim final rule from federal financial regulators on capital, updates from ICBA, OCC and the Federal Reserve. IBANYS continues to reach out to a wide range of sources as we seek additional clarity on several outstanding issues and questions. As soon as we know. . .you'll know as well.

Best Regards,
John

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ICBA has drafted another letter (**attached**) that IBANYS has agreed to sign onto that will be sent to Treasury Secretary. Mnuchin, SBA Administrator Carranza, Federal Reserve Chairman Powell and all members of the United States House of Representatives and the United States Senate.

With roughly one-third of the community banking industry still awaiting access to the E-Tran and/or Lender Gateway Systems, we intend to deliver a message that:

- Urges Treasury and SBA to mobilize every available resource to strengthen their technology expeditiously;
- Informs everyone that we intend to work to secure additional and vital funding for the PPP from Congress. Without adequate scale, the Program cannot meet its potential;
- Urges Treasury/SBA to allocate at least 25 percent of existing and future Program funds for banks of \$50 billion in asset size or less, reminding them that since these banks hold approximately 27 percent of industry assets a 25 percent allocation would be proportionate and appropriate; and,
- Gratefully urge the Federal Reserve to make their decision to create a facility to support lending in the Program thereby providing term financing backed by Program loans become operational immediately. We will ask the Federal Reserve to go further and provide advances against Program loans to further enhance the capacity of the Program. Liquidity must not be an obstacle to the success of the Program.

Updates From ICBA On PPP

The Treasury Department and Small Business Administration answered key ICBA questions about the Paycheck Protection Program. In new updates to the agencies' PPP frequently asked questions <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf> they confirmed the following:

- Lenders may use their own promissory note or an SBA form of promissory note for PPP loans. SBA Standard Loan Note (Form 147) is posted on the SBA website. <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program-ppp#section-header-9>

- The lender must make the first disbursement of the loan no later than 10 calendar days from the date of loan approval.
- The eight-week period of borrower payroll costs that determines the amount of forgiveness for PPP loans begins on the date the lender makes the first disbursement of the PPP loan to the borrower.

Meanwhile, pages 21-24 of the interim final rule <https://home.treasury.gov/system/files/136/PPP--IFRN%20FINAL.pdf>

detail the documentation and attestations lenders need to obtain from borrowers. The rule says the SBA will hold harmless any lender that relies on such borrower documents and attestation, as required by the CARES Act.

ICBA has added information from the Treasury/SBA FAQs to its own FAQs on the PPP https://www.icba.org/advocacy/industry-issues/lending/small-business-lending/community-bank-covid-19-faqs/?utm_source=informz&utm_medium=email&utm_campaign=informz&zs=njOgU&zl=Rla32.

Nevertheless, key questions remain unanswered. ICBA continues to ask Treasury and the SBA to provide definitive guidance on:

- Whether banks can lend to their directors with eligible small businesses, and
- Whether owner draws or distributions count as payroll costs.

Fed Plan To Provide \$2.3 Trillion To Support Economy

The Federal Reserve on Thursday took additional actions to provide up to \$2.3 trillion in loans to support the economy. This funding will assist households and employers of all sizes and bolster the ability of state and local governments to deliver critical services during the coronavirus pandemic. The actions the Federal Reserve is taking today to support employers of all sizes and communities across the country will:

- Bolster the effectiveness of the Small Business Administration's Paycheck Protection Program (PPP) by supplying liquidity to participating financial institutions through term financing backed by PPP loans to small businesses. The PPP provides loans to small businesses so that they can keep their workers on the payroll. The Paycheck Protection Program Liquidity Facility (PPPLF) will extend credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value;
- Ensure credit flows to small and mid-sized businesses with the purchase of up to \$600 billion in loans through the Main Street Lending Program. The Department of the Treasury, using funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) will provide \$75 billion in equity to the facility;
- Increase the flow of credit to households and businesses through capital markets, by expanding the size and scope of the Primary and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF) as well as the Term Asset-Backed Securities Loan Facility (TALF). These three

programs will now support up to \$850 billion in credit backed by \$85 billion in credit protection provided by the Treasury; and

- Help state and local governments manage cash flow stresses caused by the coronavirus pandemic by establishing a Municipal Liquidity Facility that will offer up to \$500 billion in lending to states and municipalities. The Treasury will provide \$35 billion of credit protection to the Federal Reserve for the Municipal Liquidity Facility using funds appropriated by the CARES Act.

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm>

Federal Bank Regulators Issue Interim Final Rule For PPP Facility

The federal bank regulatory agencies today announced an interim final rule to encourage lending to small businesses through the Small Business Administration's Paycheck Protection Program, or PPP. The PPP was established by the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, and provides loans to small businesses so that they can keep their workers on the payroll during the disruptions caused by the coronavirus. The interim final rule modifies the agencies' capital rules to neutralize the regulatory capital effects of participating in the Federal Reserve's PPP facility because there is no credit or market risk in association with PPP loans pledged to the facility. Consistent with the agencies' current capital rules and the CARES Act requirements, the interim final rule also clarifies that a zero percent risk weight applies to loans covered by the PPP for capital purposes.

The rule is effective immediately and comments will be accepted for 30 days after publication in the *Federal Register*.

<https://www.occ.gov/news-issuances/federal-register/2020/nr-ia-2020-51-federal-register.pdf>

For details, contact **Rafael (Ralph) E. DeLeon, Director for Banking Relations/National Bank Examiner**

Office of the Comptroller of the Currency: (202) 649-6736 office; (202) 359-0096

cell; ralph.deleon@occ.treas.gov

Changes To The Regulatory Capital Rule To Accommodate PPP

The Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System (Federal Reserve), and Office of the Comptroller of the Currency (together, the agencies) issued an interim final rule on April 7, 2020, that **allows banking organizations to neutralize the regulatory capital effects of participating in the Federal Reserve's Paycheck Protection Program Lending Facility (PPPL Facility)**. Through the PPPL Facility, each of the Federal Reserve Banks will extend non-recourse loans to eligible lenders, including depository institutions, to fund loans under the Paycheck Protection Program.

https://www.fdic.gov/news/news/financial/2020/fil20037.html?source=govdelivery&utm_medium=email&utm_source=govdelivery

Senate Banking Committee Wants Clarity From Treasury & SBA On PPP Holdups

Senate Banking Committee leaders sought clarity from federal regulators on Paycheck Protection Program holdups and additional efforts to streamline regulations during the COVID-19 emergency. Subcommittee on Securities, Insurance, and Investment Chairman Pat Toomey (R-Pa.)

urged the Treasury Department and SBA in a letter [https://icba-now.informz.net/icba-](https://icba-now.informz.net/icba-now/data/images/NWT/Documents/20.04.08_ToomeyLetter.pdf)

[now/data/images/NWT/Documents/20.04.08_ToomeyLetter.pdf](https://icba-now.informz.net/icba-now/data/images/NWT/Documents/20.04.08_ToomeyLetter.pdf) to address technical issues and the lack of guidance plaguing the PPP. He also raised concerns related to BSA/AML compliance, PPP eligibility, and Economic Injury Disaster Loans disbursement delays. In a separate letter <https://icba->

now.informz.net/icba-now/data/images/NWT/Documents/20.04.08_CrapoLetter.pdf, committee Chairman Mike Crapo (R-Idaho) called on federal regulators to provide additional steps and statutory changes that would facilitate regulatory relief for financial institutions. Crapo cited ICBA-advocated CARES Act relief related to the Community Bank Leverage Ratio, Current Expected Credit Losses accounting standard, and troubled debt restructurings.

Another 6.6 Million Filed For Unemployment.

The U.S. Labor Department reported that another 6.6 million Americans filed for unemployment last week. That adds to the 10 million jobless claims in recent weeks, by far the sharpest spikes in U.S. history. The 6.6 million far exceeded the 5 million filings anticipated by Wall Street. Meanwhile, last week's 6.65 million claims were revised upward to 6.87 million, the highest ever on record. The data lags by a week, so there may still be more big numbers yet to come.

Latest On Rent Collection: Cuomo Says Nothing More Is Needed At The Moment

According to the "New York Daily News" New York State Sen. Michael Gianaris (D-Queens) has written to Governor Cuomo to urge him to issue an executive order suspending rent collection from New Yorkers who are in dire straits due to the pandemic. The Governor has already suspended evictions for 90 days during statewide stay-at-home order meant to stem the spread of the deadly COVID-19 disease, but advocates and tenants say more needs to be done to prevent a flood of evictions once the crisis resolves. Cuomo has so far stood by his decision to temporarily suspend evictions, saying that nothing more is needed at the moment and that the state will reassess the situation down the road.

Opportunities For Selling Held-To-Maturity Securities

The link below, provided by ICBA Securities/Vining Sparks, explains a possible source of liquidity for community banks. Vining Sparks has published a Strategic Insight regarding banks' ability to sell certain of its bonds. The report suggests that conditions may have been met for banks to sell HTM securities without tainting the remainder of the portfolio. It also says that the bank's auditor needs to be brought into the discussion beforehand.

<https://www.viningsparks.com/vswp/wp-content/uploads/2020.04.06-Covid-19-HTM-Safe-Harbor.pdf>
IBANYS will continue to provide updates as more information becomes available. Thank you for your participation and support.

- **John J. Witkowski, President & CEO (Johnw@ibanys.net; 716.880-0518)**
- **Stephen W. Rice, Director of Communications & Government Relations (Stever@ibanys.net)**