Coronavirus: Managing the Near-Term
by Charles B. Wendel

“This Too Shall Pass” summarized a philosophy that one of my clients inscribed on a plaque that hung in his conference room. So, too, will the fierce impact of the virus; most of us expect some relief from our current existence as minimum security prisoners by early May, although whether that is just a hope remains to be seen. Certainly, I hear people voicing the view that looming economic ruin may require some partial return to something approaching normalcy at least in some parts of the country; as in banking a segmented strategy will be critical to making that work.

The near-term actions for managing through this virus differ dramatically from the steps financial services firm will have to take in 2021. Right now, banks want to keep the wheels on and are doing all they can to assuage employee concerns, manage current customer needs, and ensure the adequacy of their capital position.

By this point we assume banks and credit unions have addressed the fundamentals:

- Create a <u>small</u> group that can make <u>quick</u> decisions about issues as they arise.
- Guarantee employment for all staff through 2020. Customers will also benefit if the staff feels secure.
- Provide raises/bonuses to front line branch employees as well as phone-based customer service staff, among others. They deserve financial recognition for working through this period.
- Stress test the loan portfolio and proactively reach out to business customers. Even Citibank, which I regularly criticize, sent me an email with a banker’s contact, even though FIC has never borrowed. When I wrote back saying thank you but we had no need, I received a reply that said they were there if I needed them. That was an appreciated move.
- Simplify vendor policies. Mr. and Ms. Banker, you make it very difficult for third-parties to do business with you. I understand how this happened, but in some cases the inmates have taken over the asylum.

Here’s one reason why to change ASAP. One critical area as of last Friday centers on providing funds to small businesses through the CARES Act. I have been receiving emails from a DC law firm Nelson Mullins that provide some very helpful information about how the act works and am attaching an SBA summary of its Paycheck Protection Program as well as the law firm’s press release on that topic.

Bank of America was the first bank to announce they were accepting applications under the CARES Act, although some criticized them for only accepting applications from current customers. Frankly, that is both a smart and appropriate starting point. A few other big banks announced they were taking apps by the end of last Friday, but its fast rollout was a PR coup for BofA, a bank that may have faced more bad press than any other bank back in 2008-2009 related to how it treated small businesses. Banks like BofA have the wherewithal to figure out the rules and required process to make CARES loans.

BTW, CBS reported that Wells Fargo had hit its cap on these loans due to a Federal Reserve restriction in its loan growth that it refused to increase; the Fed should change its restriction. The biggest banks are in the strongest position to make this program work. As of Friday, the ABA announced that $30B in loan apps had been taken, what it said was about the total amount of SBA lending for all of 2019.

Many banks, even of some size, should work with a third-party vender to meet the requirements of the CARES Act. Companies like Numerated Growth Technologies are offering software that they say can simplify the process and get banks lending quickly. Finding a vendor to work with should be a high priority for many bank; picking the right vendor and doing it quickly is critical. Given the brief timeframe for PPP I have already heard some vendors are considering rejecting banks that they find move too slowly.

One other significant near-term opportunity exists for banks. The long awaited day of reckoning for Fintech small business lenders has arrived. Selectively, banks and credit unions can pick up clients from Fintechs. For example, Kabbage announced it is furloughing a "significant number" of its employees. Worse, as reported by Bloomberg, they have cut off credit lines to current customers. Bloomberg spoke to more than a dozen of their borrowers who said they only realized that their credit had been cut upon logging into their accounts. One borrower said: "They've left me high and dry when I needed them the most," echoing comments made about banks in 2008 and beyond. Bloomberg says Fundbox and OnDeck have also cut borrowing and at a recent webinar I heard an exec from Lendio say 50% of his non-bank lenders have slowed their lending, a percentage likely to increase.

Of course many banks may also want to pull back in lending and become hedgehog-like, but the smartest and bravest have a big opportunity to exploit.