Conversations with the St. Louis Fed

Friday, March 27, 2020
11:30 a.m. – 12:00 p.m. CT

Jim Fuchs:

Thank you, Dagma, and good morning, everybody. For those of you in the Eastern time zone, good afternoon. Welcome to the Conversations with the St. Louis Fed program. We've been offering this program for a number of years. It switches format each year. You may recall that last year in 2019 we traveled to seven different cities in our district to hear directly from you, our state member banks and bank holding companies.

Now this year, we're modifying the program a bit, and this is in direct response to feedback we've received from bankers, from commissioners, from our state trade associations. We're going with a half-hour weekly teleconference. It's going to be every Friday at 11:30 a.m. Central time. So please mark your calendar. As I mentioned earlier, our Supervision team has already reached out to all state member banks in our district, and we look forward to ongoing discussions with all of you.

This conversation is not designed to replace those ongoing communications but rather to be a supplement. There are a lot of things that we talk about on an individual level, and we feel like we need a forum for questions. As you know, we've engaged with different stakeholders on different issues. This is a nice way to share this in a broad way. I do want to remind you this call is being recorded and archived.

So please go to supervisionoutreach.org and you'll see in the top bar it will say Conversations. That will be the archive for every single one of these that we do. So if you hear something interesting today and you want to go back and reference it, we're going to make sure we get that archive up very quickly. Please feel free to share the link with others in your bank in your professional network there who are dealing with these kind of issues.

So again, we only have a half hour, so I'm going to introduce our senior vice president in charge of Supervision here at the St. Louis Fed, Carl White. Carl?

Carl White:

Thanks, Jim, and hello, everyone.

So this is the first session that I'm leading as the new head of Supervision, and I certainly wish it was under better circumstances, but we felt a real importance right now is how we communicate, and we want to communicate as frequently as you want us to. So we're here. I just want to emphasize that although all of us are working from home in Supervision, we're certainly still available via all of our normal channels, and as Jim said, we've been actively contacting all of you. We've been in conversation with all of our commissioners as well as other regulators. So we're here to answer questions. And if you have any concerns or issues, please reach out to us.

At the St. Louis Fed itself, just to give you a little update, currently just essential staff are physically in the building, and you may wonder who is essential. Well, it's our cash operations, mainly, and because of our cash operations, we then have to have law enforcement and some facility staff. So on a given day, we will have well over 1,100 or 1,200 people in the bank. We have some people across the street in another building in our Treasury operations, but right now, we probably have 100 staff at peak, so this is a very different time for us as well. Thus far, technology has certainly been our ally. We've been continuing to update our platforms so that we can continue to operate from home. And so far, so good.

From a System perspective, I have weekly calls with our Supervision committee, which is the other heads of Supervision, and then the leaders in Washington. We met this week with our Community Depository Institution Advisory Council (CDIAC). So we'll continue to reach out to them as well. And then we have management groups for our different portfolios, either community banking or regional banking. So we're in constant communication throughout a given week with folks throughout the system trying to gather as much information and intel that we can gather, and then we'll certainly share that with you as necessary.

As Jim said, we're going to continue to use our communication platforms, including Ask the Fed® and others. So be on the lookout for those as we send out those invites.

I sent out a Supervision Contact System (SCS) message on this, but the Board of Governors has a dedicated website. Just go to www.federalreserve.gov and then just off to the right there's a section you can click on that says COVID-19 Resources. Whenever new guidance is issued—for example, on all these new lending programs and various changes to our processes—all those are available there. So it's kind of a nice one-stop shop to refer yourself to.

The last thing I'll mention is, well, two things. I mentioned cash a little bit earlier. We've had lots of questions about cash supplies. I will tell you that the Fed is monitoring this on a daily basis, and I check in every day with the head of cash operations here in St. Louis. I continue to hear that our volumes are at good levels. They have an increased supply. So it's just a matter of your institutions either working with your correspondents, your couriers, or directly with the Fed, getting those orders in. So access to cash should not be a concern, but the timing, we understand, could be a concern if you're using a third-party courier. So I just want to reassure you that the supply is here.

The last thing I'll mention is another challenge that affected some of you, and certainly was on our radar over the weekend, was this cyberattack on Finastra, which is a core service provider, if you're not familiar with them. And I just mention that just to keep vigilant on cyberattacks, phishing scams, phone calls to your customers. We all have to be even more aware of the challenges there. So I'm going to pause and turn it over now to Robert Hopkins, who's responsible for the consumer compliance function.

Robert Hopkins:

Thanks, Carl. Hello from a quiet downtown Little Rock, my hometown. I live down here; the streets are empty.

I want to pick up on Carl's point and acknowledge that we understand that you guys are all dealing with the challenges in your bank and also your community. And in response to that, the Federal Reserve and the other regulators sent out an interagency press release on March 9 and another one March 22, which I presume that most of you have seen. Those were designed primarily to have institutions understand how they can deploy their resources efficiently to support their customers and your local economies and obviously doing that in a prudent and fair manner while you're meeting the challenges of your community.

But to kick off at a high level, what the releases covered. Firstly, working prudently with your customers who are unable to meet their contractual obligations due to COVID-19 is obviously important and stressed in both of the releases. Secondly, for the Reserve Bank's part, we're focusing on monitoring. We want to stay abreast of the challenges and risks that the current environment presents for customers, staff, or firms and for the largest firms. But the risk to financial stability will be on our radar screen as we work through this tough time.

Thirdly, which I'm sure you are aware of now, we've changed our focus with regard to examinations. The Federal Reserve generally has ceased all regular examination activity except where the examination work obviously is critical to the safety and soundness or consumer protection. If we do happen to have necessary activities to conduct with financial institutions, we'll be doing that off site until normal operations are resumed, both at financial institutions and here at the Reserve Banks.

Fourthly, we're going to extend the time frames for remediation of any supervisory findings. So we're extending that time period by 90 days. And unless we notify the firm that a more timely remediation would aid the firm in addressing the heightened risk or help consumers, then you can probably expect to see that extension. If a status would otherwise be due in 30 days, as an example, the due date has been extended to 120 days.

And finally, I just mention, as Carl did, that we'll continually communicate with financial institutions as the situation unfolds, including through additional statements, webinars, frequently asked questions, and other means. We encourage banks, obviously, to reach out to us if they have things to discuss. We want to be helpful and consultative throughout this process, and we're here to do that. I just wish all of you well as you continue to work through the crisis in your own banks and communities.

Now I'm going to turn it over to Allen North, in our Safety and Soundness function. Allen?

Allen North:

Good morning, everybody. Jim Warren and I are going to tag team this and I think at the end Kevin Henry, an officer in consumer compliance, is going to have a few comments. We've pretty much already stated this, but I feel like given Jim and I's role, we want to restate that we're really looking to try to stay out of the way.

Everyone's getting used to this new norm, and no one knows for sure how long this is going to last. But certainly it's unprecedented, and we're all trying to get used to this. So I think from our perspective, we want to stay out of the way as best we can. But we're also here for questions, and we want to make sure that that's abundantly clear.

To start off with, every time we have a natural disaster or any kind of event like this, the federal agencies come out and say, work with your borrowers, prudent modifications, those sorts of things. We encourage all those types of activities, to work with borrowers, and really what we're saying there is we want the flow of credit to continue as best we can, and this, like every other event, is no different, and we came out very quickly and said that, but the industry had a number of concerns.

I'm sure you guys are fully aware of the troubled debt restructuring (TDR) accounting designation, and there are some misconceptions about that. And so there was an interagency statement on loan modifications that was issued on the 22nd and that really talks more about how we're going to treat these modifications in the reporting requirements.

But the key here is—I don’t want to go into a lot of detail about that because I do think the guidance interagency statement is fairly clear. But we’re going to use judgment, and I ask you to trust us that we’ll apply that judgment, when this is all said and done, in a fair and equitable way. What we’re seeing right now is our banks are doing exactly that, working with borrowers, doing what’s right. These modifications are really important, and getting out in front of this and being proactive is extremely important.

The new guidance that came out on loan modification, the interagency statement, is very clear on this that these insignificant—or viewed as significant— changes for borrowers that are current are not going to be TDRs. The point we want to make is to continue to do what you’re doing. Get out there ahead of some of these borrowers and talk to them. Try to work with them as best you can, because if they were a good borrower before, they’re going to be a good borrower again when this crisis ends.

So with that, I’m going to turn it over to Jim, I know Jim has thoughts he’d like to share with you.

Jim Warren:

Thanks, Allen. I think I just want to reiterate what Allen said: Please be working with your borrowers.

I think a lot of times regulators don’t really understand the importance of a customer base, and I want to assure you that our examiners are being made aware that the customer base of your institution is a very important base. It’s what’s going to allow you to get through this situation and become profitable in the future. So they do serve as the backbone of your profitability, and I think the key thing here is you want to retain good relationships and make sure that your customers can get through this trying situation.

I think a couple of things come to mind in relation to modifications. And the first thing that I would say is please understand that your borrowers are not going to react in the same fashion as other borrowers. I’m sure you’re all already thinking about this, but if you go through a program where you’re just extending all your commercial borrowers by 90 days, in essence, what you might be doing is having to go back again in 90. You might be creating a logjam of renewals in 90 days, but also your customers may need more than 90 days. They may need up to four months, five months, six months. It all depends on how quickly their enterprises return to generating positive cash flow.

So when you're thinking about your commercial customers, think about the time frames that you're out there thinking about these modifications to the terms and think about what might be the best prudent manner to allow them to get back into business.

From a compliance standpoint, on the consumer side, I think, while you have that flexibility in the commercial portfolio, please be aware, as I think Kevin will probably indicate, that you need to treat your consumers a little more in a homogeneous manner and that you don't want to be thought to disadvantage one race or to have any kind of fair lending concerns.

Those would be my comments. Kevin, do you want to add on to the consumer side?

Kevin Henry:

Hi, Jim. Thanks. This is Kevin Henry, and I've got some responsibility in the consumer compliance function, and I think I would reiterate mostly what's been said.

First off, Jim's point about just trying to treat customers fairly. Just be aware of your customer base during this time and, again, flexibility is the key here. In the interest of time, there have been a number of questions—individual questions—that have been posed about modifications and extensions and things like that. And there's some pretty good information on what counts as a refinance versus a modification, and this call is not the time, probably, or the place for us to go through that.

But I would encourage you to be in contact with our team on the compliance function. So if you have questions on those types of things, feel free to reach out to us. We have had a number of questions, and we're working through those now. And we could help you hopefully answer some of some of your questions as you go through this process. So I think I'll just turn it back over to Allen for additional wrap-up.

Allen North:

Okay. Just a couple other things we want to share with you.

As we talked about adjusting to the new norm, the new norm is most of our banks have lobbies that are closed and are providing services through drive-up, and then, of course, there are electronic means and appointments only. And we just want to make sure everyone knows that we appreciate you letting us know when you do those things, but those don't require any kind of regulatory application. And if you were to close a branch entirely, as long as your intention is to reopen it, then that also does not require any kind of regulatory notification. Some of the states, I know, want to keep up with that. But as far as the Fed goes, we're fine.

The other point I want to make before I pass it back to Jim Fuchs is: We do understand that loan closings can be a little bit difficult right now. One thing, of course, is appraisals, and appraisers wanting to get on site or not being able to get on site or inside of a dwelling or a commercial building, and Board staff are looking at some guidance in that regard. I don't have much to share with you at this point.

I also realize there are some difficulties with the county clerks and county courthouses that are closing. Some have the ability to file mortgages and deeds of trust electronically; some do not. And so clearly that's an issue. We do have an examiner, ironically, that closed on a home loan this week and closed it entirely electronically, including using Skype video-type technology and was able to do the entire thing electronically the fund were wired to the bank and that worked very, very well. We do understand some of the smaller banks are just not going to have the capacity to do that. Especially in some rural area, as I mentioned with the courthouse issues, so that's something that we're seeing.

Last comment before I turn it over to Jim is, just in general, I want everybody to know on the call, banking conditions have gotten fairly quiet. Things seem to be really good; our banks seem to have plenty of liquidity. We seem to not have any issues—state member banks in terms of cash. And as I said, we see an awful lot of activity trying to help borrowers. We're fielding a lot of those questions and would encourage you to continue to feel free to give us a call as you need us. So with that, I'm going to turn it over to Jim Fuchs.

Jim Fuchs:

Thank you, Allen. Folks, this is Conversations with St. Louis Fed. We have had a number of conversations throughout the week, and part of the reason we wanted to do this program every Friday is obviously it gives us an opportunity to really compile the questions we've heard from you.

However, even during this call, some questions are coming in already. Please keep those coming; the email address is conversations@stls.frb.org. I am going to turn it back over to Allen in a second.

I did want to mention, however, in my role with the oversight for the credit function here at the Federal Reserve Bank of St. Louis, clearly, we've seen a lot of announcements about some new programs that are being initiated to make sure that we support liquidity and access to credit throughout the financial system, for our banks, for our larger enterprises, for our medium and small enterprises as well.

We're going to get into those programs as more details become available. But I think the main message here and right now in the short term is that the philosophy on the discount window itself has changed. It's a liquidity tool; it is not a lender of last resort tool. And institutions are not only reminded of the discount window but are encouraged to use the window as a liquidity tool. We've seen an uptick since the start of this crisis; just like any other source of liquidity, this should be part of your liquidity management practices. You will not be negatively criticized by your regulator. I'm going to turn it back over to Allen, who I know can speak to that as well. But this is a philosophical change on the discount window; I want to make sure that everybody is aware that, again, this is a liquidity management tool, and certainly as you think through your liquidity strategy, the discount window should be part of that.

So, Allen, I will turn it back over to you because I know we've had a few questions come in and there are a few other things you want to touch upon before we wrap up the call.

Allen North:

Sure. Absolutely. So I just want to reiterate the point on the discount window. We are encouraging use of the discount window; you could have it as part of your normal funding strategy. I would view it very similar to The Federal Home Loan Bank. You know that we want to make sure that you understand that it's not going to be viewed negatively by examiners to use a discount window.

I want to try to address a question that came in having to do with the service providers. And so I've got maybe a couple of comments about the service providers. One is, as you all know, we have an interagency program that we supervise the significant service providers and some smaller regional ones, and right now things are going pretty well there. I want to reassure you there that while we mentioned Finastra early in the call, most banks on this call are with some other service providers; things seem to be going very, very well. They've implemented their pandemic planning, and things seem to be working according to plan.

There was a question about some disclosure requirements, and I'm really not in a good position to answer that question right now. But I will say that the question discloses that I guess some of the service providers may have difficulty with deferring payments, particularly on consumer loans like that home equity line of credit (HELOC) or something like that. And so we'll have to get back with you on an individual basis to answer some of those questions, but I did think it was a good opportunity to mention to you that the significant service providers seem to be doing pretty well, and we are still actively working with those folks. We monitor them, just like we do your institutions, so just want you to know, we're keeping track of what's going on with them. So with that, I guess I'll turn it back over to Carl and Jim for closing remarks.

Carl White:

Yeah, thanks, Allen. So we're going to try to stick to our time here.

I do want to say just a couple comments to wrap things up here. First, I really want to thank all of you for your commitment, not just to your communities, but also to your employees and remind you all that we're here to help as best we can. I know the flow of information is like drinking through a fire hose right now. I can imagine for you all trying to dissect all this new information coming out of Washington is a challenge beyond what capacity you have, so we can help. We're trying to get through it as quickly as we can, as well to determine the impact, especially on our community banks. So we're actively working on that.

A couple points I will mention more from the policy standpoint. For those that know President Bullard, he emphasizes communication, just as we do as well. So he has been out amongst the various media channels openly talking about his opinions on not just the crisis but the economic response, monetary policy response.

So one thing that he and his research team have done is if you go to our public website, stlouisfed.org, right there at the front, there's a COVID-19 and St. Louis Fed blog post. So he's encouraged all his researchers to blog even more frequently to get information out there. So we welcome your thoughts there from on that site. You can certainly read that. I'm sure folks don't have much time to read even more information, but it's out there if you can.

I do have an invitation out to President Bullard to hopefully join us for one of these calls. As you can imagine, he is extremely busy, but I hope to get that wrapped up, and we'll announce that for one of our future sessions coming up. If I can't get Jim, I'll certainly work on getting maybe one of our research economists to give us five or ten minutes of their insight on what they're seeing. So look forward to that. And for that, I'm going to turn it over to Jim, and he's going to wrap us up.

Jim Fuchs:

Great. Thank you, Carl, and thanks to all of you for joining us today. As we mentioned, this is Conversations with the St. Louis Fed, so questions have been coming in. As I mentioned at the top, this is not to replace ongoing conversations or to supplement. This is really just to complement that, because we continue to encourage you to use all the mechanisms you have used in the past to connect with us and obviously with the state commissioners' offices as well; we want to be responsive to you in real time.

However, we do think there's value once a week in getting together. Chances are, if you've asked a question of one of us, it probably has broad implications for everyone, and so this is an opportunity for us to really compile those as well throughout the week and present those to you. But we've even been taking live calls here through our email system throughout. So again during the week, as questions come up, we're going to be talking to each other and comparing notes. But if there's something you want to hear addressed, please email us at conversations@stls.frb.org.

Again, I mentioned this top of the call, this call is being recorded. We will make an audio file available pretty quickly here. And then again, please feel free to share that with those in your organization and your board of directors too; we know they have lots of questions and those audio files will be on the supervisionoutreach.org site. Again, pretty simple: supervisionoutreach.org. You could do /conversations, or you can just click on the Conversations box. If there are some questions we're not able to get to today, we'll follow up with you individually, and again we'll keep organizing our thoughts throughout the week and make sure we present to you the information that we're hearing and the questions that we know our institutions are most interested in.

Also want to point out when you go to supervisionoutreach.org, you'll see on the right hand side there's a section for resources. So everything that was mentioned today, President Bullard's blog Carl mentioned. Carl mentioned the Federal Reserve COVID-19 site, so we will list all those resources there too. So you don't have to go and hunt for them. They'll be in one spot in the same spot as our audio archives. So we are coming up on time here.

Thank you for making the time this afternoon. We know you're getting a lot of questions from your customers, from your own staff, and from your boards as well. We want to continue to be a resource to you; we appreciate commentary from you as well. Obviously, understanding what's going on in your communities and in your banks is very important to us as we continue to navigate the challenges around this COVID-19 pandemic.

So we will be back on next Friday at 11:30 a.m. Again, I know we'll be talking to a number of you throughout the week, but we appreciate you making the time today, and we look forward to speaking with you next week during our next Conversations call.