
MEMORANDUM

TO: ANDY DAVIES
FROM: EDDIE MAYNARD
SUBJECT: SENIOR LENDER FORUM
DATE: MARCH 30, 2020
CC: SHEENA FRECH

Disclosure: The views expressed in this document are my views and do not represent the opinions of any entity whatsoever with which I have been, am now, or will be affiliated. This document or these views discussed today should not be interpreted otherwise.

- 1.) Determine what the Bank's priorities are. Do you have excess capital? Can you afford to forgo interest income if you have to. What does your current economic situation allow you to do? What is driving your current local economy and how is it being affected? For instance, are you in an area where factories are retooling to increase manufacturing? Do you have bandwidth to work with customers? Do you have to outsource? Do you have the expertise? Should you employ third parties on your behalf?
- 2.) Bring a sense of calmness. Customers, the world, and your employees are scared to death. They are panicked. There are multiple communication outlets that have an element of misrepresentation of the facts. Always remember, you are the "trusted advisor". Customers and employees are looking to you for guidance and solutions. The adage – "God gave you two ears and one mouth.....". Listen to them. Help where you can. Sometimes people need to vent frustration, worry and fear. Their initial response may not be the underlying issue. You can't get to the solution if you aren't listening. So much of communication is non-verbal. You aren't able to see folks to get reactions. That requires you to listen more.
- 3.) Constant Communication – At this time, information is coming in from all angles at an incredible pace. If you aren't already doing so, it is recommended to schedule daily calls with your Executive Leadership to update on incoming calls, responses, action plans, customer needs, etc, All of the decision makers should be meeting daily and communicating. Also keep the Board, Regulators, Accountants, Compliance involved regularly.
- 4.) Make decisions as a group (attorneys, regulators, accountants, management teams) – This is not a time to make one-way decisions. The best decisions come from consultation with groups. Everyone brings a different view. Use your trusted advisors to guide you.
- 5.) Do not be afraid to make wrong decisions – Not being able to make decisions quickly and responsively can be one of the biggest downfalls a bank can face. You will make wrong decisions. You will make right decisions. Just make a decision, support it, document it, communicate it and adjust if it isn't correct.

- 6.) What's good for the Jones' isn't necessarily good for us. There is a lot of misinformation, erroneous bank responses, miscommunications and decisions made by other banks that may not be best for your bank. Everyone has a different capital position, market considerations and circumstances that affect how they should make their decisions. Their customer base is different. Some have made decisions with a broad brush. It is important to know the facts, make decisions that remain compliant with regulations and guidance. You may decide that what someone is doing in the market is not what you can do. You have to know your bank, your bankers, your customers, and your limitations.
- 7.) Simplify your processes but don't forget market considerations - It is easy to overthink the process and the situation. At the same time, the regulators have conditioned each bank to do your best to work with everyone. Understand what your competitors are doing. What communication are they sending out? Are they communicating to your customer? Are you at risk because you haven't communicated? How does it compare with your bank? Are they better informing your customers?
- 8.) Financial Impacts – One key consideration all banks must address is interest income/losses and capital preservation. Every loan that you forbear means interest income is not collected for that period of time. Loss of income causes loss of capital. You may find that there are other solutions than giving a broad-brush approach. While the Fed allows 6 months, how does that work for the bank? Can you make it on not having income for 6 months? What impact does your customer base have on your outcomes? If you are in a town with very few businesses, this will be a very difficult time.
- 9.) Work with your customers. The Fed urges this. You want this. This is what you are in business for. This is what will pull you out of the trouble times after this event passes. Remember that there are some people who were having financial and operational problems before these events. They are not a result of these current market issues. They are now enhanced. Not everyone will make it through this. You may ultimately have to decide who you can afford to work with and who you can't. Not everyone will be pulled through these times because the underlying management and problems existed before.
- 10.) Portfolio Identification and Sector information – Do you know where your risks are in your portfolio? Do you know which areas may have the largest impact? No one knows how long this event will last. You have to employ stress testing around the entire portfolio – from the bottom up customer level to the top down enterprise level.
- 11.) Proactive outbound calls to customers. Waiting is not a solution. Have your bankers call every customer in the portfolio. Getting in front with a solution today may be better than waiting until you can't work with them. Your CFO will also need to know what impacts on income and capital as best you can. Waiting for the storm to hit without preparation is not as productive as taking shelter from the storm before it comes.
- 12.) Credit Enhancements – additional collateral. Are there ways that you can pick up additional collateral or credit enhancements that you may not already have?

- 13.) Reporting and Tracking – process and documentation. You don't know where you are going if you don't know where you are. What can your systems handle? Are you updating your executive team and lenders either daily or weekly? What are you doing to track your process and documentation? My fear is that there will be a lot of negative impact if the files aren't clearly documented as time passes. While currently there is regulatory reprieve, the reprieve will not be forever. Be prepared for short-term memory loss. If you document what you are doing, why you are doing and how you will service going forward, it will make life much easier.
- 14.) Standardization – the process has to be standardized. Is everyone operating the same way? Are you rowing the boat the same way? If you are not standardized then you could find yourself in a compliance nightmare. See what works best, have everyone follow the path. Layout at process flow chart and decision matrix.
- 15.) SBA – There is a lot of support that appears to be coming down the line. Align today with an SBA contact to help your customers push through the system. The following is an excerpt from the ABA:

Authorizes \$350 billion for three months of 100% guaranteed 7(a) loans to cover payroll costs, interest on mortgage payments, rent obligations, and utilities.

- *Applies to businesses with fewer than 500 employees or those that meet SBA's current size standards for 7(a) loans.*
- *Applies to self-employed or individual contractors.*
- *Applies to certain nonprofits including 501(c)(3) organizations and 501(c)(19) veterans organizations, and tribal business concerns with fewer than 500 employees.*
- *Vastly expands universe of lenders authorized to get paycheck loans processed and into the hands of business owners as quickly as possible. This includes banks that previously have not participated in the SBA 7(a) program.*
- *Authorizes \$17 billion to cover six months of payments for principal and interest for existing SBA 7(a) borrowers. This provision provides relief on existing obligations.*
- *Establishes a Paycheck Protection Program (PPP): o Provides 100% guaranteed loans to cover specific operating costs.*

The maximum loan size for borrowers is capped at the lesser of 250% of the average monthly payroll costs (with a lookback of one year or relevant period for seasonal businesses), or \$10 million.

Includes a processing fee payable to lender within 5 days of loan disbursement, based on the loan's size. ▪ < \$350,000 = 5%

- *\$350,000 to \$2,000,000 = 3%*
- *> \$2,000,000 = 1%*

Interest rate capped at 4%.

A portion of any loan issued as part of the PPP, up to or equal to 8 weeks of covered expenses, will be forgiven by SBA and paid to the lender, plus interest.

The remaining balance after forgiveness is maintained at the 100% guarantee for the duration of the loan.

- 16.) Assign a workout person to the team – Be prepared to establish your workout area if you have not already done so. Many of the lending teams have not had lenders who have been through a downturn. There is a high likelihood that you will not be able to pull along every one of your customers. In the event that you cannot work everyone through this process, it is best to have someone who has experience in working out loans. Have them joint assigned with the banker to work with the customer when working through this period. They bring a complete different perspective and may be able to help better position your bank with whatever outcome arises.
- 17.) TDRs are still TDRs – if they were not current before and had problems, Covid can't be an excuse. YOU WILL HAVE TDRs. It is ok. Know who they are. Identify, track and fence around them. Work to rehab them. Once you come to the backside of this event, understand how to get the customer out of that designation. It will be inevitable that you will have some.