



Conversations With Bankers On Lending And 2021 Planning

by [Steve Brown](#) Topics: [Business customers](#), [lending](#), [strategic planning](#)

Summary: Today we share some of the highlights of conversations we have had with bankers on lending and their planning for 2021.

Did you know that sea cucumbers eat with their feet? Sometimes things can be a little upside down, especially in today's world. But, to ensure that this is minimized, bankers are having tough conversations with their borrowers. This is one of the things we heard in our recent conversations with our client community financial institutions (CFIs) on how they are approaching lending, as the pandemic continues. We would like to share some of the highlights of these conversations.

Existing customers. Many lenders are focused on existing customers, to ensure that their institution maintains a fairly stable loan portfolio base. With many unknowns out there, a positive borrower history helps to mitigate one of the threads of uncertainty. Numerous customers received PPP loans, and some are beginning to work on loan forgiveness. Also, some customers have gone through a payment deferral process and are now beginning to make standard payments.

If borrowers need additional time or concessions beyond the CARES Act, lenders are having challenging conversations to identify options that both preserve the business/property and remain within acceptable lending practices. One solution we have seen from multiple lenders is to offer a small second lien that serves to fund the first lien debt service for a short period of time and this seems to be working for some CFIs/borrowers.

New borrowers. Some lenders are becoming more proactive when it comes to lending and using the PPP program as a way of introducing themselves to new borrowers and grow the relationship. These lenders are electing to focus on specific industries (such as manufacturing) or property types (such as multi-family), where they still felt comfortable lending. For CRE loans, lenders are placing an emphasis on location, guarantor liquidity, and overall guarantor strength. Most lenders we have talked to want to see LTVs for new loan facilities in the 50% to 65% range.

Planning for 2021. Regardless of whether a banker has chosen to take a slow path or be more aggressive during this crisis, the planning for 2021 seems quite similar. With hopes that a vaccine is near and the pandemic will subside, most lenders see a rising economic trajectory (after some bumps in the road), as most approach 2021 with cautious optimism.

Many are contemplating various questions to help with decision-making for 2021, as challenges continue. Some questions include the following:

1. COVID-19: Has it subsided? When will there be a vaccine?
2. Deferments: Will regulators support further deferments?
3. The economy: Is job growth steady? Will hospitality, retail, and travel begin to improve?
4. Housing: How are government policies impacting landlords? How are sectors within housing responding to the pandemic?
5. Technology and Workflow: Will working remotely continue? How will it affect office tenancy and landlords?

Wherever your lending and planning takes you, these highlights and questions will hopefully lead you in the direction that is right for your institution and your community.

ECONOMY & RATES

Rates As Of: 10/20/2020 04:38AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.09	0.00	-1.45
6M	0.11	0.01	-1.47
1Y	0.12	0.01	-1.44
2Y	0.15	0.02	-1.42
5Y	0.34	0.06	-1.35
10Y	0.79	0.10	-1.13
30Y	1.58	0.13	-0.81
FF Market	FF Target	Fed Disc	
0.09	0.25	0.25	
SOFR	Prime	Unemp	
0.09	3.25	7.90	

BANK NEWS

Goldman Sachs Partners With Walmart

Goldman Sachs is partnering with Walmart to provide a flexible, digital line of credit for a 12-month draw period. The funds can be used for investing in inventory and raw materials, marketing and advertising, paying salaries, financing product or service expansions, acquiring equipment or other long-term assets, improving or acquiring real estate, or paying creditors, among others. Interest on the lines of credit accrues at a fixed rate only on the amount the business borrows.

Regulatory Actions for Citigroup

The Fed and OCC fined Citigroup \$400MM and mandated that the bank repairs its risk management systems and internal controls. Areas of concern included data management, regulatory reporting, and capital planning. The OCC noted that the fine was the penalty for the bank's "longstanding failure" to correct problems in its risk and data systems.

Fintechs and PPP Loan Fraud

The US Department of Justice reports that around 75% of approved PPP loans linked to alleged fraud came from fintech companies. Yet fintechs, such as Kabbage Inc., processed only 15% of loans overall.

COVID-19 IMPACTING YOUR RESERVE

The continuing uncertainty due to COVID-19 makes preparing for year-end and 2021 challenging. Our complimentary report, which has been updated to reflect the most current forecasts, can help. The Q3 report is now available. Simply download [Reserve Insights: COVID-19](#) today.

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