STRADLEY RONON

Client Alert

A Publication of the Stradley Ronon
Financial Services Practice Group

WWW.STRADLEY.COM

MARCH 23, 2020

Stradley Ronon Stevens & Young, LLP
2005 Market Street
Suite 2600
Philadelphia, PA 19103-7018
215.564.8000 Telephone
215.564.8120 Facsimile
www.stradley.com

With other offices in:
Washington, D.C.
New York
New Jersey
Illinois
Delaware

Please click here to visit our COVID-19 RESOURCE CENTER

Government Agencies Propose and Consider Relaxed Banking Rules Amid Coronavirus Epidemic

The impact of COVID-19 (coronavirus) in the U.S. over the past several weeks is unprecedented for individuals, corporations, financial markets and governments. While the long-term financial impact of coronavirus remains uncertain, Bloomberg News reported on March 19, 2020, that "[i]n less than two weeks, the amount of distressed debt in the U.S. alone has doubled to a half-trillion dollars as the collapse of oil prices and the fallout from the coronavirus shutters entire industries."[1] Significantly, the outbreak comes at a time when corporate debt is at an all-time high as a consequence of the long period of low-interest rates that have caused businesses to take on additional debt, much of which will come due in the near future.[2] While most sectors of the economy will experience some fallout from the coronavirus crisis, industries that have been frozen by coronavirus, such as brick and mortar retail, transportation, travel, hospitality, and arts and entertainment providers likely will be hit harder than other industries.

The Board of Governors of the Federal Reserve System (the Fed), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (the Comptroller) and other financial regulators are moving with extraordinary speed to provide financial relief to Americans. On March 17, 2020, the Fed, FDIC and Comptroller issued a joint statement encouraging banks to "use their capital and liquidity buffers to lend and undertake other supportive actions in a safe and sound manner".[3] These mandatory capital minimums and buffers were implemented post-2008 to enable banks to support the economy via continued lending in a severe economic downturn.[4]

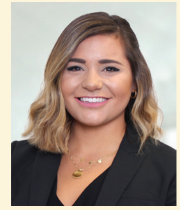
In addition to this general mandate, the Fed has initiated programs in an effort to stabilize the economy. Specifically, the Fed is offering to large banks, $1 trillion of overnight loans daily in addition to $1 trillion of 14-day loans weekly.[5] The Fed also is purchasing Treasury bonds and mortgage-backed securities at an extremely accelerated pace. Id. On Friday, the Fed announced it would expand its emergency Money Market Mutual Fund Liquidity Facility lending program, to make bank loans for the purchase of highly-rated municipal bonds from money market mutual funds and muni bond funds. *Id.*

In addition to the measures undertaken by the Fed, the Comptroller is considering actions to free up additional capital, including relaxing a proposed rule related to supplemental leverage ratio standards and delaying the effective date of the Current Expected Credit Loss Standard (the CECL).[6] The CECL limits the amount of risky loans a bank is permitted to make and became effective in 2020 for large commercial banks and is subject to a three-year phase-in for smaller banks.[7] Proponents of these actions say that relaxing these rules would encourage lending to those industries hardest hit by coronavirus that currently are considered high risk.[8]

The above measures are merely the beginning of coronavirus aid. A draft $1 trillion coronavirus stimulus bill was released last Thursday that will provide assistance for individuals, small businesses and certain hardest hit industries.[9] Democrats and Republicans have worked throughout the weekend to ready the bill for a vote, which is expected to occur early this week. Real-time reports suggest the aid provided under this bill could reach $2 trillion and will include one-time checks to Americans, paycheck support, unemployment expansion, emergency funding for public health, aid to the hardest hit industries, and state aid.

For commercial lenders and borrowers, it is a turbulent time, with new government rules and incentives, entire industries shut down, a landslide of troubled loans, and uncertainty regarding the new normal, including whether or when certain industries will recover. During this time of uncertainty, the Stradley financial services team with its deep and broad experience in commercial lending, debt restructuring, bankruptcy and commercial dispute resolution is seamlessly working remotely to monitor and assess government actions and incentives, as well as current trends, so that we may best serve our valued clients.

Deborah A. Reperowitz



Stephanie A. Winkler

For more information, contact Deborah A. Reperowitz at 212.812.4138 or dreperowitz@stradley.com or Stephanie A. Winkler at 212.404.0632 or swinkler@stradley.com.

---

[1] Olivia Raimonde, *Distressed Debt in U.S. Doubles to $500 Billion in Two Weeks* (March 19, 2020), https://news.bloomberglaw.com/bankruptcy-law/distressed-debt-in-u-s-doubles-to-500-billion-in-two-weeks.

[2] Avi Salzman, *The Coronavirus Crisis Could Wipe Out Entire Industries. These Are the Ones at Risk*, (March 20, 2020) https://www.barrons.com/articles/these-debt-heavy-industries-stand-to-fare-worst-during-the-virus-crisis-51584742383. Corporate debt hit 47% of GDP this year, the highest peak in history, while it was at 45% in 2008, just before the last financial crisis. *Id.*

[3] *Regulators consider loosening bank liquidity rules amid coronavirus crisis, could boost loan volume* (March 17, 2020), https://www.cnbc.com/2020/03/17/regulators-considering-more-changes-to-free-up-bank-liquidity-sources-say.html.

[4] Joint Release, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, *Statement on the Use of Capital and Liquidity Buffers* (March 17, 2020).

[5] PBS News Hour, *Federal Reserve to Lend Additional $1 Trillion a Day to Large Bank* (Mar. 20, 2020), https://www.pbs.org/newshour/economy/federal-reserve-to-lend-additional-1-trillion-a-day-to-large-banks.

[6] *Regulators consider loosening bank liquidity rules amid coronavirus crisis, could boost loan volume* (March 17, 2020), https://www.cnbc.com/2020/03/17/regulators-considering-more-changes-to-free-up-bank-liquidity-sources-say.html. Lauren Egan, *Senate GOP Releases Massive Coronavirus Bill that Includes Checks for Americans* (March 19, 2020) *https://www.nbcnews.com/politics/congress/negotiations-heat-1-trillion-coronavirus-bill-would-include-cash-payments-n1163826*.

[7] Michael Cohn, *CECL delay gives small banks more time to get ready* (Sept. 13, 2019), https://www.accountingtoday.com/news/cecl-delay-gives-small-banks-more-time-to-get-ready.

[8] *Regulators consider loosening bank liquidity rules amid coronavirus crisis, could boost loan volume* (March 17, 2020), https://www.cnbc.com/2020/03/17/regulators-considering-more-changes-to-free-up-bank-liquidity-sources-say.html.

[9] Lauren Egan, *Senate GOP Releases Massive Coronavirus Bill that Includes Checks for Americans* (March 19, 2020) https://www.nbcnews.com/politics/congress/negotiations-heat-1-trillion-coronavirus-bill-would-include-cash-payments-n1163826.