Banking and Finance Law Daily Wrap Up, LOANS—ABA urges congressional committee leaders to extend soon-to-expire CARES Act provisions, (Nov. 18, 2020)

Banking and Finance Law Daily

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By Thomas G. Wolfe, J.D.

The extension of certain key sections is critical to empower banks to continue assisting those in need during the pandemic, the ABA maintains.

In a letter to leaders of the House Committee on Financial Services and the Senate Committee on Banking, Housing, and Urban Affairs, the American Bankers Association requests an extension of "a few of the most critical, temporary provisions" of the Coronavirus Aid, Relief, and Economic Security (CARES) Act "to ensure America's banks can continue to fulfill their role as financial first responders in the communities they serve." In particular, the ABA asks the congressional committee leaders to legislate extensions for CARES Act sections pertaining to: temporary relief from troubled debt restructurings; optional temporary relief from current expected credit losses (CECL); the temporary lending limit waiver; and temporary relief for community banks. Presently, these sections are slated to expire at the end of 2020.

The ABA's Nov. 17, 2020, letter, which was authored by James Ballentine, Executive Vice President for Congressional Relations and Political Affairs at the ABA, was transmitted to House Financial Services Committee Chairwoman Maxine Waters (D-Calif) and Ranking Member Patrick McHenry (R-NC) as well as to Senate Banking Committee Chairman Mike Crapo (R-Idaho) and Ranking Member Sherrod Brown (D-Ohio).

Recommendations. The ABA letter requests that the Senate Banking Committee and House Financial Services Committee extend soon-to-expire CARES Act provisions pertaining to:

- Temporary Relief from Troubled Debt Restructurings (TDRs), CARES Act Section 4013. These TDRs are the "accounting and regulatory framework for the treatment of loan modifications by a bank or credit union." The ABA recommends extending this provision "until the end of the emergency period."
- Optional Temporary Relief from Current Expected Credit Losses (CECL), CARES Act Section 4014. Since the economic crisis will extend longer than the pandemic, the pro-cyclical CECL accounting standard requires financial institutions to "make credit loss allowances that are difficult to estimate, adding volatility to the amount of capital they are required to hold, and creating incentives to suppress lending just as communities attempt to recover." The ABA recommends extending this provision until Jan. 1, 2023.
- Temporary Lending Limit Waiver, CARES Act Section 4011. Creating an exception from current loan limits for national banks to lend to certain nonbank financial companies, the provision promotes liquidity "by creating more flexibility for national bank lending to nonbanks" while ensuring that all lenders have the tools they need to support their respective communities. The ABA recommends extending this provision until at least Dec. 31, 2021.
- Temporary Relief for Community Banks, CARES Act Section 4012. In connection with the voluntary minimum capital level for community banks and the financial regulators' ability to set the required level (based on a leverage ratio) that is presently set at 8 percent by the CARES Act, extending this provision "would maintain community bank capital levels at significant levels, while freeing up resources to be used to serve local community needs." The ABA recommends extending this provision until at least Dec. 31, 2021.

Companies: American Bankers Association

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