

December 9, 2020

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Maxine Waters
Chairman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Chairs Crapo and Waters and Ranking Members Brown and McHenry:

The undersigned banking associations, representing banks of all sizes in every state, would like to thank you for your leadership throughout the COVID-19 pandemic to support consumers and small businesses. The CARES Act has provided unprecedented relief to the American people, and banks are proud of the role they have played to implement the law, helping small businesses and families through the Paycheck Protection Program, loan forbearances, and other support. We call on you to continue that leadership by extending a critical economic response tool – temporary relief from troubled debt restructuring (TDR) accounting – until the health and economic crises are under control.

In March, while no one could have predicted how long the pandemic would last, Congress took decisive action to get resources directly into communities across the country and gave banks new tools to facilitate loan forbearances that could otherwise have triggered longstanding accounting rules designed to protect the banking system. These regulatory tools, including temporary relief from TDR accounting, are set to expire on December 31, 2020 – well before the pandemic and its economic effects fade. We urge you to include an extension in the economic stimulus package currently before Congress.

It is critically important that the TDR relief in the CARES Act (Section 4013) be extended before the end of 2020 so that America's banks can continue to fulfil their role as financial first responders in the communities they serve. Once a loan is classified as a TDR, it often requires twice the regulatory capital of other loans, is ineligible for consideration as collateral at the Federal Reserve, and often requires that the bank begin to take remedial steps against a loan, including foreclosure. The potential impact on bank capital will deplete the available funding for future lending that communities need to spur the economic recovery. Congress allowed banks to suspend this accounting treatment to ensure they had flexibility to work with customers who were current at the end of 2019, but were facing pandemic-related challenges. This flexibility is still needed.

Small businesses and consumers facing temporary disruptions in cash flow and wages will be most impacted by the expiration of TDR flexibility. Real estate loans, a significant aspect of the community bank business, will also be put at risk as Main Street bankruptcies and foreclosures destabilize local market values, forcing further loan write-downs.

Premature expiration of CARES Act Section 4013 ultimately will both slow the pace of future needed modifications, including forbearance, and may force banks to reduce the availability of certain modifications. Expiration also amounts to changing the “rules” in the middle of the health crisis, resulting in confusion for borrowers, muddled modification reporting for investors, and potentially different examination conclusions for modifications that occur on either side of a day on the calendar.

Banks of all sizes will continue to support our communities as the recovery continues. We urge Congress to assist by extending the temporary relief from troubled debt restructuring accounting before the end of 2020.

Sincerely,

American Bankers Association
Alabama Bankers Association
Alaska Bankers Association
Arizona Bankers Association
Arkansas Bankers Association
California Bankers Association
Colorado Bankers Association
Connecticut Bankers Association
Delaware Bankers Association
Florida Bankers Association
Georgia Bankers Association
Hawaii Bankers Association
Idaho Bankers Association
Illinois Bankers Association
Indiana Bankers Association
Iowa Bankers Association
Kansas Bankers Association
Kentucky Bankers Association
Louisiana Bankers Association
Maine Bankers Association
Maryland Bankers Association
Massachusetts Bankers Association
Michigan Bankers Association
Minnesota Bankers Association
Mississippi Bankers Association
Missouri Bankers Association
Montana Bankers Association
Nebraska Bankers Association
Nevada Bankers Association

New Hampshire Bankers Association
New Jersey Bankers Association
New Mexico Bankers Association
New York Bankers Association
North Carolina Bankers Association
North Dakota Bankers Association
Ohio Bankers League
Oklahoma Bankers Association
Oregon Bankers Association
Pennsylvania Bankers Association
Puerto Rico Bankers Association
Rhode Island Bankers Association
South Carolina Bankers Association
South Dakota Bankers Association
Tennessee Bankers Association
Texas Bankers Association
Utah Bankers Association
Vermont Bankers Association
Virginia Bankers Association
Washington Bankers Association
West Virginia Bankers Association
Wisconsin Bankers Association
Wyoming Bankers Association

cc: The Honorable Mitch McConnell
The Honorable Nancy Pelosi
The Honorable Chuck Schumer
The Honorable Kevin McCarthy
Members of the Senate Committee on Banking, Housing, and Urban Affairs
Members of the House Committee on Financial Services