



QUARTERLY NEWSLETTER FOR ICBA CERTIFIED COMMUNITY BANKERS



CREDIT TRIAGE IN THE COVID ERA

By Brad Stevens, Stevens Risk Management, LLC

In medical terms “triage” is defined as the process that is used to assess the viability of patients, determine urgency, and prioritize treatment. Assessing the credit risk of a client can be tricky even in the best of times but with the myriad uncertainties and economic disruption caused by COVID-19, bankers need to take a triage approach when working with clients.

Is your client suffering from a temporary liquidity issue or an existential solvency issue? Understanding what tools you have available to diagnose the survivability of borrowers and assist those who can survive is of the utmost importance at this moment.

A liquidity issue is a short-term problem that will correct itself. Borrowers with liquidity issues will have the resources to sustain themselves once the crisis is past. As a lender you see clients with liquidity issues all the time; they exhibit a cash shortfall

which is covered by the financing you provide. The financing is thus repaid with the liquidation of the asset that is financed, whether that be the accounts receivable, inventory, or a long-term asset. A solvency issue is not so friendly. Typically, marginal clients with high leverage, tight cash flow, and limited reserves will fall into a solvency issue, particularly when a crisis arises. Borrowing more to a client in a solvency crisis is throwing good money after bad. They will not be able to repay the debt they currently have outstanding, let alone any new money that is provided.

There are three key diagnostic methods to determine whether the borrower has a liquidity issue or solvency issue.

- » First, is to **assess how much cash is locked up in the seven core cash drivers of the firm and how much can be drained out for**

Credit Triage in the COVID Era
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GET TO KNOW

THELMA R. WELCH

An ICBA Certified Commercial Loan Officer since Nov. 2005



What makes a community bank different from the larger banks?

We know our customers by name. We go to church with them. We sit with them at ball games. We serve on local committees with them. Because we know them personally, we truly understand their needs and the needs of our communities.

What makes you most proud of your bank? Merchants and Planters Bank has a strong history of commitment to its employees and customers. We are a family that works together to serve one another and the people who bank with us. We make financial investments in our communities and commit our personal time and energy to local initiatives. Another thing that makes me very proud is that we are “employ-

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WE'RE GOING VIRTUAL!!!!

Due to health-safety recommendations, Community Banker University is delivering the remainder of its 2020 seminars, institutes, workshops, and conferences as digital events. Although we would love to see you in person, we are excited about bringing together community bankers in this new virtual format to learn and connect.

Our virtual classrooms mimic the qualities of face-to-face classroom instruction as they allow teachers and learners to participate in live classes, communicate with each other, hold discussions, and more. This means that for 2020, participants can earn live CPEs by completing an event's requirements.

NOTE: When reporting Live Virtual training for your CPE, be sure to choose either ICBA Live In-Person Seminar or Non ICBA Live In-Person Seminar from the Course Type dropdown menu.

BANKERS LOVED OUR MAY 2020 VIRTUAL BSA/AML INSTITUTE!

★ ★ ★ ★ ★

“I would recommend this training for any BSA Officer. It is an effective way to review and learn all aspects of BSA. The presenters are fantastic.”

—Cynthia Burdick, Vice President/BSA Officer

★ ★ ★ ★ ★

“I hope that even after the pandemic is over, schools like this will still be available for live stream option. **Not having to travel was great!**”

—Adanna Day, BSA Officer

★ ★ ★ ★ ★

“I really liked the breakout sessions, so you can talk to other people with similar issues that you see at your bank.”

—Amy Balague, BSA Officer/AVP

ee owned.” The bank’s ESOP is the largest stockholder, and this makes each of us feel strongly invested as we serve our customers.

How did you find your way into banking? Honestly, I was looking for a job change and applied at the bank. That was 40 years ago, and it has been a blessing. I’ve had the opportunity to work in nearly every department and this 360-view has made me a better banker. I have been blessed to work with the very best people—my fellow employees and our customers—who teach and inspire me daily.

Tell us your biggest and best accomplishment. Truthfully, I count my children as my biggest and best accomplishment. It was just my kids and me for most of their growing-up years and I was truly blessed to work for an organization that valued me as an employee AND a mother. It allowed me to do my best job and to also be able to meet the needs of my family.

What do you like best about the work you do? I love the opportunity to help people work through their issues and fulfill their dreams. It can be challenging but it’s such a blessing to get to know people and to help them through their best times and sometimes their most painful. It is not easy, but it gives each day value. I am thankful for the chance to do what I do.

What is your bank’s customer service philosophy? Our bank believes that we must strive to give our best to meet our customers’ needs. We try to speak to each customer and to call them by name and to give them our best while they are here. This familiarity and friendliness extend outside of our doors. Many of us wear logo shirts/sweaters to work. I have been in line at the grocery or at a ball game and people will come and ask you questions about banking or their needs and I feel that this is a privilege that they



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A GUIDE FOR COMMUNITY BANKS REOPENING THEIR DOORS

Every community bank will have its own circumstances driven by local pandemic conditions, state guidance, business requirements, and the needs of your local communities. Key considerations will include the emotional state of your employees, how to protect personnel, mitigate instances of COVID-19 exposure or outbreak, sanitizing areas, legal liability, and coordination with CDC, Federal, State, or local guidelines.

EMOTIONAL STATE OF EMPLOYEES

It is important when considering returning to more normal operations, like returning to the office or opening branch lobbies, that you take into consideration and address the emotional state of your employees.

Some employees may not feel comfortable returning to work, or they may be in a high-risk category (those who have encountered infected persons, traveled in affected areas, are elderly, have underlying health conditions, or feel ill). In these situations, and where possible, consider allowing employees to continue to work from home.

GENERAL RECOMMENDATIONS

- » Post CDC and State health department safety hygiene information at the entrance to buildings.
- » Make hand sanitizer available to customers and employees.
- » Provide and require employees to wear medical or cloth masks if your community bank's circumstances indicate that it is necessary to do so, or there is a CDC, Federal, State or local guideline to do so.
- » Provide and require employees to wear gloves if your community bank's circumstances indicate that it is necessary to do so, or there is a CDC, Federal, State or local guideline to do so.
- » Encourage employees to wash their hands often, including before and after going on break, eating, or using the rest room.
- » Clean buildings and work areas more frequently following CDC guidelines.
- » Clean pens and other commonly used items between use, and/or allow customers to take the pens out of the building with them.
- » Contact your HVAC professional to see if there is a way to increase the flow of fresh air into the building. Replace air filters more regularly.
- » Promote the use of solutions such as online banking, mobile apps, phone banking, appointments by phone, ATMs, and the use of drive-thru windows.

ICBA Corporate Member Deluxe offers hard-to-find personal protective equipment and sanitation supplies to help community banks continue their operations during the COVID-19 pandemic. View their catalog at: deluxe.lookbookhq.com/ppe-covid-19-deluxe

trust us and know they can reach out to us whenever and wherever we are.

What's your best advice to a new bank employee? You never know what opportunities are out there for you. Always be prepared to listen and learn. I began in the bookkeeping department of the bank. Through the years, I have worked in almost every department here. It was never my intention or specific goal to end up doing what I now do, but I worked with great mentors and team members who shared their knowledge and skills and offered me opportunities to grow.

Why did you choose to become certified? Merchants and Planters Bank is a strong member and supporter of ICBA and its training and certifications. Our senior lending officer had been through Community Banker University's Commercial Lending Certification program and encouraged her loan officers to do the same. I accepted the opportunity when she offered it to us.

How has earning your certification helped your career as a banker? It has caused me to dig deeper and to think bigger. I am better prepared and have the tools to deal with a variety of customer needs.

FACT CHECK

Headquarters: Newport, Ark.

Bank Asset Size:
\$292,000,000.00

Number of Employees: 81 bank employees

Number of Staff in Auditing/BSA/AML: 5

Website: www.mandpbank.com

Tagline/Motto: "Come grow with a bank that will never outgrow you."

repayment with management behavior. Can management squeeze out funds from the gross profit margin? The operating expense margin? What about the collection days of the accounts receivable or moving of the inventory? Can they extend the accounts payable and for how long?

- » Second, is the **level of cash flow surplus.** Most calculations look at cash flow coverage being 1.25 times over the debt payments. In a time of crisis, when more debt is likely needed, the goal should be 1.5 to 1.6. That will give a cushion to sustain the firm through tough times as well as pay back the debt given. If a client is already beneath 1.25, they have no capacity for more debt; they are already facing a solvency crisis.
- » Lastly is **leverage.** The lower the leverage of the firm the more staying power they have. If leverage is under 2.0, they are in shape to withstand a couple of quarters of diminished business activity. Above 3.5 and they are unlikely to hold on for a month or two.

There are several treatments available to assist clients you deem likely to survive the COVID economic shut down. First, are the government programs that have been proposed. This includes grant and loan programs through the CARES Act, State grant programs and even some local municipal assistance that has been approved. They may provide specific remedies and funds that may not have to be repaid. There is a second possible treatment that the FDIC released on April 7, 2020 detailing a statement on loan modifications and reporting for financial institutions. The statement shares that the regulatory agencies will not criticize financial institutions that work prudently with borrowers who are unable to currently meet their contractual payment obligations due to the COVID crisis. If you observe safe, sound credit practices in determining that the client is suffering a liquidity crisis and not a solvency crisis, you can work with your client in several ways. The statement details how an existing loan modification that meets three criteria under Section 4013 are not required to apply ASC Subtopic 310-40, avoiding the classification of a TDR. This will be a powerful treatment to allow your clients some discretion in repayment abatement until their cash flow is back to normal.

Just giving your clients more money will not cure their problems. It is your responsibility to assess their ability to repay the new funds as well as any existing debt. For those eligible, work with them on the new programs that are offered, but do not forget that loan modifications are available without the past blemish of the red mark of a TDR. Use your triage model wisely to help your clients.

2020 CALENDAR OF VIRTUAL EVENTS

Additional opportunities to earn CPEs!

AUGUST

- 4–6 & 11–14 IT InstituteSM
- 10–12 BSA/AML InstituteSM
- 12–13 Vendor Management Seminar
- 17–18 CFO Forum
- 17–19 & 24–26 Commercial Lending InstituteSM
- 19–20 Community Bank Human Resources Seminar
- 25–27 Advanced IT Seminar

SEPTEMBER

- 9 Information Systems Auditing Workshop
- 10–11 **NEW!** Full Scope IT Auditing Workshop
- 14–17 Consumer Lending InstituteSM
- 14–17 & 21–23 Audit InstituteSM
- 21–22 ICBA LEAD FWD Summit
- 21–24 Annual Current Issues Certification Conference
- 28–Oct. 1 Bank Security InstituteSM
- 28–Oct. 1 & Oct. 5–7 Compliance InstituteSM

OCTOBER

- 5–8 Credit Analyst InstituteSM
- 8 **NEW!** Agricultural Credit Analysis
- 13 Cash Flow Analysis
- 14 Troubled Loans and Credit Management
- 19–22 Annual Current Issues Certification Conference
- 26–28 Risk Management InstituteSM

NOVEMBER

- 4–6 BSA/AML InstituteSM
- 16–18 Community Bank Marketing Seminar
- Dates TBD:** Annual Directors Conference

Please refer to www.icba.org/education/live-events for current event information.

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