

# Banking in the “New Normal” Environment: What We Are Learning

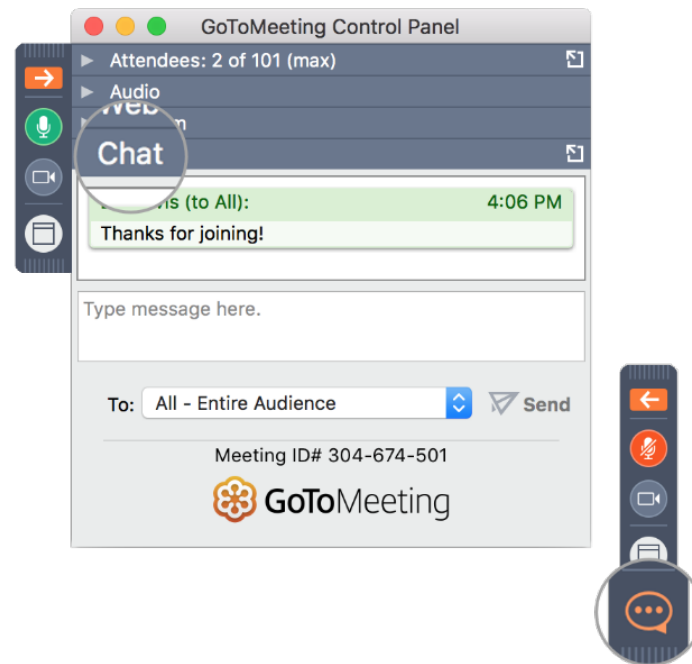
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# Webinar Instructions

+ Please submit questions through the Chat Box in the webinar control panel





MCM CPAs & Advisors has formed a group of experienced advisors to assist clients on accounting and business matters in wake of implications from the coronavirus pandemic. This team of advisors has decades of experience supporting businesses in response to disastrous situations so they can feel confident and prepared for their next steps.



**Sam LaFollette**  
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Principal



**JP Roth**  
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# Financial Reporting Issues

# Presenter

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John Paul Roth (JP)

CPA

Assurance Senior Manager



# CARES Act – Impact

Stimulus package that contained Financial Reporting Guidance

1

Sec. 4013 Temporary relief from trouble debt restructurings (TDR)

2

Sec. 4014 Optional temporary relief from current expected credit losses (CECL)

3

Sec. 4022, 4023, 4024 Foreclosure, Forbearance, and Moratorium on evictions

# CARES Act – Sec. 4013

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## Troubled debt restructuring

- + Suspension of TDR treatment
  - + March 1, 2020 – 60 days past end of national emergency or December 31, 2020
- + Type of modifications covered
  - + Forbearance agreement | Interest rate modification | Repayment Plan
  - + Arrangements that defer payments of principal and or interest.
- + **Must be COVID-19 related**
  - + Direct or Indirect



# CARES Act – Sec 4014, 4022 - 4024

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- + Current expected credit losses (CECL) - 4014
  - + Temporary relief from CECL from March 27, 2020 to (the earlier of) 60 days past end of national emergency or December 31, 2020.
  
- + Other real estate owned
  - + Forbearance & Foreclosure
    - + 4022 – Federally backed mortgages – 180 days (up to 360 days)
    - + 4023 – Federally backed multi-family mortgages – 30 days (up to 90 days)
  
  - + Moratorium on eviction - 4024
    - + 120 day period (starting March 27, 2020)





# Accounting Estimates

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- + Any estimate with significant judgements
- + Allowance for loan loss
  - + Credit Risk
  - + Concentrations
  - + Q-Factors
- + Fair market value
  - + Investment - volatility
  - + Asset impairments (collateral)



# Internal Controls

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- + Are there controls that are ineffective due to changed work environment.
  - + Remote vs. on site
  - + Increase risk?
- + Changes in processes and procedures
  - + Documentation
  - + Policy exceptions



# Questions?

Please submit questions in chat box



# Technology Reminders

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# Presenters

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**Rick Taylor**

CISA

Assurance Principal



**Scott Rexroat**

MCP, CISA

Assurance Supervisor



- + In today's business environment our workforce is moving to a combination of in office and remote work environments.
- + Many companies do not have the technological resources or business processes in place to deal with the quickly changing work environment. This can lead inefficiency and an increase in cybercrime.
- + With so many options out there, it can be difficult to know what solutions to implement not just to stay functional, but to remain secure.



**Has technology in your organization allowed you to function remotely with adequate security?**

# Functionality

- + Your technology should provide your team the ability to fully function from outside the office as if they were inside the office, while retaining the same level of security.
- + Consider the risk of functionality vs security requirements.
- + Governance and workflow policies, and procedures may need to adapt to ensure there is a solution in place for every job function that must be completed.





**Are you able to communicate effectively with your internal team, vendors, and clients using your current solutions?**

# Communication

- + Policy and ongoing status updates should be provided to your remote workforce to outline communication rules.
- + Standardize communication solutions. That are approved by the organization.
- + Cloud based phone and video conferencing solutions are not all created equal, and it's critical that the solution you invest in is robust enough to support the needs of your team safely as well as fit your budget



# Functionality vs. Security

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- + Businesses have taken a knee-jerk reaction to current events by throwing together solutions to ensure that their team has access to work from home.
- + Due diligence has not been performed, testing has been forgotten, and security has been an afterthought.
- + Users are in an emotional situation and outside of their comfort zone



# First Line of Defense

Employees are your  
*strongest* line of  
defense and your  
*weakest* link.

Now is not  
the time to  
forego  
security  
training!

# IT Support Structure

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- + Whether your IT support is internal or through an outside vendor, everyone's support processes have been challenged.
- + It's imperative that you coordinate and communicate with your team when support is available, if onsite support is an option, what are the limitations of support (i.e. would you support a home user's internet connection?), etc.



# Monitoring Systems

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- + It is imperative that your IT team continues to have the ability to monitor all company owned equipment, access, and has a solid patch management system in place to keep your software up to date
- + Don't use non-monitored equipment (i.e. personal).



# Vendor Management

What should you do?





1

Ensure policy's on vendor due diligence remain active. Many technology vendors have come forward in this time of need to offer free or long-term trials of popular products, designed to accommodate the new 'norm' of working from home.

2

Re-assess vendor risk levels. Have vendors operational changes increased risk to your information? Do you need to review more often

3

Review service level agreements. Have / Will these change?

4

Understand specific communication / notification processes. Are you sure its your vendor communicating?

# BCP/DR What Should We be doing?

## What Should We be doing?

1

Complete a comprehensive business impact analysis.

2

Evaluate third party relationships.

3

If you are in a regulated industry should you have activated your Incident Response Plan?

4

Non-regulated industries should consider review of supply agreements, manufacturing agreements, distribution agreements, production agreements and general services agreements from both a send and receiving position.

5

Whether creating or updating a BCP plan ensure it covers all aspects of you business.

# Questions?

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# Liquidity Management

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# Presenter

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Sam LaFollette

CTP

Assurance Principal



“Reports that say that something hasn't happened are always interesting to me, because as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know.”

Donald Rumsfeld.  
February 2002



# Hindsight is 20/20





Don't have time  
to solve today?



What are you  
learning?



Memorialize it!

## Learning during the Pandemic

as of: 4/30/2020

Date	What did we learn?	What happened	Assign to:	Completion	File directory	Status
				Deadline		
4/15/2020	We should have an FHLB CMA line.	Was hard to track down 2 signatures to fax in borrowing application.	John Smith - Funds Manager	5/30/2020	m:\files\misc\FHLB CMA.PDF	Complete 4/30/2020
4/20/2020	Pandemic plan needs to be updated for extended remote work	Tokens for key funding applications stored in inaccessible file cabinet.	Bill Johnson - Chief Risk Officer	6/30/2020	m:\files\BCP\plan.docx	Not Started



# Draws on Liquidity

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- + How did the following fit your forecast from 2 months ago?
  - + Corporate customers – depleting cash balances
  - + Draws on lines of credit
    - + Are borrowers fully drawing just to be sure to have cash on hand?
  - + Funding of PPP Loans
- + Key consideration:
  - + Watch utilization rate by loan type.
  - + Trend analysis



# Liquidity Sources – Cash On Hand

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- + Fed Funds Sold
- + Due from balances (including FRB)
- + AFS Securities
- + HTM Securities
  - + FIL 18-2020 – FAQs
  - + Can be sold without tainting remainder of HTM if due to liquidity crisis created by COVID
  - + Documentation is key
- + Key Consideration: Add HTM Securities to CFP sources in stressed scenarios during the national emergency.



# Not all funding sources are created equal...

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- + Fed Funds Purchased
- + FHLB Advances
- + Qwickrate/National Market CDs
- + Brokered CDs
- + Promontory CDARS/ICE
- + FRB Discount Window
- + FRB PPPLF



# ALCO Members Have Not Memorized

Funding Type	Capacity	Duration Min.	Duration Max.	Rate	Restrictions	Notes
Fed funds purchased	10,000,000	1 day	7 days	0.40%	Before 2:30pm	After 1 week, collateral must be posted
FHLB advances	25,000,000	1 day	10 years	See rate sheet	Need 2 signatures	
FHLB CMA advances	10,000,000	1 day	30 days	0.35%	1 person may call	Part of FHLB overall line
Qwickrate CDs	10,000,000	30 days	2 years	0.65%		Someone must open the CDs
Brokered CDs	10,000,000	6 months	5 years	1.00%	10% of assets	Takes 1 month to aggregate
CDARs one way buy	10,000,000	4 weeks	52 weeks	0.65%	Bid on Wednesday	Not guaranteed
Promontory ICE one way	5,000,000	Overnight		0.35%		
FRB discount window	4,000,000	Overnight	90 days	0.25%	Need paperwork and collateral	
FRB PPPLF	Amount of PPP loans		Maturity of PPP loans, up to 2 years	0.35%	Need paperwork and collateral	

# FRB PPPLF

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- + Paycheck Protection Loan – Liquidity Facility
- + Pledge PPP Loans – no haircut
- + 0.35% rate – up to maturity of loans (2 years)
- + Does not require you to be already set up at discount window
- + Fill out the paperwork
- + <https://www.frbdiscountwindow.org/generalpages/emergency%20credit%202020>





# What Day of The Week to Meet?

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- + What drives that day?
  - + Rate surveys?
  - + Free calendar time?
- + Best day for decision?
  - + Some funding sources are only available if you bid on Wednesdays (CDARS)
  - + What if your meeting is on Thursday or Friday?
- + Consideration: if liquidity is potentially challenging, reconsider the best day/time to meet



# Test Your Lines (*All of Them*)

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- + The whole team
- + Test the whole set of lines
- + Make sure everyone knows how to get/move money
- + Anyone working remotely (at least part of the time)?
- + Where is documentation / tokens / password list?
- + Can you get all required signatures?
  
- + Do you need an FHLB CMA line for convenience?



# Contingency Funding Plans

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- +Run the reports
  - +Have you hit any triggers?
  - +What did your plan say to do?
  - +Talk about it in ALCO?
- 
- +If you would change the plan, add it to what we learned.



# Questions?

Please submit questions in chat box

Thank You  
for your time!



**MCM COVID-19 Resource Center**

[www.mcmcpa.com/covid-19](http://www.mcmcpa.com/covid-19)