December 9, 2020

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

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