



Bank Strategy Briefing

Ideas and analysis for community bank executives

Recession watch: Actions community bank boards can take now

“While economic data for March is just starting to be released, the severity of the blow from the coronavirus leads us to believe that the U.S. is entering recession – if not already in one.”

*S&P Global Research Note
March 17, 2020*

After more than a decade of recovery and expansion since the Great Recession, it appears community banks may be in for a rough patch. Although it is impossible to know just how challenging this new economic cycle will be for community banks, markets are anticipating the potential for significant credit quality issues for publicly traded banks.

Community bank boards and executive teams can look to lessons learned in the Great Recession to begin preparing **now** for possible hardship, rather than taking a ‘wait and see’ approach.



Company (ticker)	Market cap (\$M)	At March 16, 2020		Dividend yield (%)
		Price change (%)	YTD	
The Bancorp Inc. (TBBK)	300.8	-30.1	-59.5	0.00
Mid Penn Bancorp Inc. (MPB)	139.9	-27.4	-42.7	4.36
Business First Bancshares Inc. (BFST)	146.6	-27.3	-56.2	3.67
Investar Holding Corp. (ISTR)	134.8	-25.3	-47.9	1.92
Timberland Bancorp Inc. (TSBK)	117.8	-25.3	-52.7	5.68
First BanCorp. (FBP)	1,094.4	-25.2	-52.3	3.96
Howard Bancorp Inc. (HBMD)	185.5	-25.2	-42.4	0.00
People's Utah Bancorp (PUB)	309.9	-24.1	-45.6	3.42
Metropolitan Bank Holding Corp. (MCB)	180.0	-23.5	-55.0	0.00
Peapack-Gladstone Financial Corp. (PGC)	284.5	-23.2	-50.8	1.32
IBERIABANK Corp. (IBKC) ¹	1,777.3	-22.7	-54.8	5.56
Customers Bancorp Inc. (CUBI)	369.0	-22.6	-50.6	0.00
Western Alliance Bancorp. (WAL)	2,514.6	-22.3	-56.5	4.04
Synovus Financial Corp. (SNV)	2,438.6	-22.1	-57.8	7.97
Wintrust Financial Corp. (WTFI)	1,774.0	-22.1	-56.4	3.62
Central Pacific Financial Corp. (CPF)	433.6	-21.9	-48.1	6.00
Orrstown Financial Services Inc. (ORRF)	144.5	-21.8	-43.0	5.27
Fifth Third Bancorp (FITB)	9,806.5	-21.8	-55.1	7.83
Citizens Financial Group Inc. (CFG)	7,911.8	-21.8	-54.4	8.43
Enterprise Bancorp Inc. (EBTC)	284.8	-21.7	-28.4	2.89
Median for all banks²		-12.0	-40.9	3.91

Data compiled March 17, 2020.
Analysis includes U.S. banks that trade on the NYSE, NYSEAM and Nasdaq, with volume of 20,000 shares or more for March 16, 2020, and market capitalization of over \$100 million.
¹ First Horizon National Corp. and IBERIABANK Corp announced a merger of equals deal Nov. 4, 2019.
² The median includes all U.S. banks that trade on the NYSE, NYSEAM and Nasdaq, with volume of 20,000 shares or more for March 16, 2020, and market capitalization of over \$100 million.
Source: S&P Global Market Intelligence

Eight topics for a special board meeting

Consider calling a special board meeting to address the following 8 ideas and to brainstorm your own ideas on preparing for the impacts of a likely recession:

- 1. Stress testing**
Commence a fresh review of your loan concentrations and consider whether your team, perhaps with the help of a third party, can develop a meaningful stress test based on today’s known macroeconomic stressors.
- 2. Loan reviews**
Consider increasing the frequency and scope of third party loan reviews to identify specific credit quality issues as early as possible.
- 3. Workouts and accommodations**
Conduct a review of significant loan relationships to identify high and low risk borrowers. Develop a plan for which borrowers you will or will not likely be willing to work with on a workout or accommodation. Review regulatory guidelines and your loan policy regarding troubled debt restructurings (TDRs).

4. Staffing

Create a staffing plan to handle an influx of classified loans, including identifying outside parties (e.g. lawyer, property manager, etc.) who will assist with workouts and foreclosures.

5. ALM

Reassess your bank's interest rate risk under various recessionary scenarios that now appear more likely, including a prolonged Federal Reserve zero interest rate environment. Take advantage of outside expertise and scale by engaging a third party ALM consultant.

6. Capital plan

Consider whether or when you should suspend or reduce stock buybacks and dividends. Identify sources of capital should the bank suffer material provisions or credit losses. If the bank's correspondent line is discontinued, what other options are available? Will subordinated debt be too expensive? Do you have adequate shares authorized for a private placement of common or preferred stock? Are directors prepared to 'pass the hat'? How would you prioritize assets for disposition if you need to shrink the bank's balance sheet?

7. Liquidity plan

Perform a liquidity stress test and identify contingent liquidity sources, such as brokered deposits, FHLB advances and the sale of loans or securities.

8. Communications plan

Prepare a plan to communicate regularly with shareholders and customers. Reassure them of the safety of deposits and the steps being taken to address the effects of a recession on the bank.

A little perspective

As you prepare for possible challenges ahead, it's important to remember that most banks survive even the most difficult recessions. In fact, many come out stronger on the other side.

For more information on this topic, or to learn how Godfrey & Kahn can help, contact our Banking & Financial Institutions Practice Group.

Banking & Financial Institutions Practice Group Members

PRINCIPAL CONTACT

Thomas R. Homberg
thomberg@gklaw.com

MILWAUKEE OFFICE

Benjamin J. Clarke
bclarke@gklaw.com

Jason E. Kuwayama
jkuwayama@gklaw.com

Richard S. Marcus
rmarcus@gklaw.com

Patrick S. Murphy
pmurphy@gklaw.com

Andrew Spillane
aspillane@gklaw.com

Peter Wilder
pwilder@gklaw.com

Bank Strategy Briefing is prepared by the Banking & Financial Institutions Practice Group at Godfrey & Kahn, S.C., Milwaukee, Wisconsin, as a service to the community banking industry. It features commentary focusing on strategic business and legal issues relevant to community banks. Each written edition contains 500 words or less. Information found in Bank Strategy Briefing is for educational and informational purposes only and is not to be construed or relied upon as legal advice.

GODFREY & KAHN

OFFICES IN MILWAUKEE, MADISON, WAUKESHA, GREEN BAY AND APPLETON, WISCONSIN AND WASHINGTON, D.C.

WWW • GKLAW.COM TEL • 877.455.2900