

STATE OF LOUISIANA
OFFICE OF FINANCIAL INSTITUTIONS BATON ROUGE, LOUISIANA

TO: CEO & COB OF ALL LA STATE-CHARTERED CREDIT UNIONS

FROM: SID SEYMOUR & JONATHAN FINLEY, CHIEF EXAMINERS

DATE: AUGUST 19, 2020

RE: LOUISIANA OFFICE OF FINANCIAL INSTITUTIONS (OFI) UPDATE

COVID-19 PANDEMIC – Since the declaration of the National Pandemic Emergency on March 13, 2020, we have experienced a significant economic downturn, a temporary decline in branch banking, an escalation of anything and everything digital, an exponential increase in remote or teleworking, the distribution of trillions of dollars in stimulus relief, the granting of regulatory relief aimed at encouraging FIs to work with their customers/members during the Pandemic, and FIs large and small (in the state and nationwide) stepping up and accepting the challenge to play an integral role in the stabilization and eventual recovery of state and local economies.

Beginning in mid-March, we witnessed a series of unprecedented events that affected not only the banking industry in the state, but also local, state, and national economies. In response, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which included the Paycheck Protection Program (PPP). A great many FIs in the state played an integral role in the PPP. The PPP, which has been administered by the Small Business Administration (SBA), had more than \$650 billion in funding available for businesses significantly impacted by the Pandemic. Under the PPP, businesses were provided cash flow assistance to cover payroll, salaries, rent, utilities, and other debt obligations.

According to the SBA's June 30, 2020, PPP Report, 73,825 PPP loans were approved in the State of Louisiana with a dollar amount of approximately \$7.34 billion. Of this amount, Louisiana-domiciled FIs accounted for \$5.93 billion (approximately 80.8 percent of total), with state-chartered FIs accounting for \$5.20 billion (approximately 70.8 percent of total). The SBA Report on the PPP Loans, as of June 30, 2020, is available at <https://www.sba.gov/sites/default/files/2020-07/PPP%20Results%20-%20Sunday%20FINAL-508.pdf>.

At the same time, the state created the Louisiana Loan Portfolio Guarantee Program for small businesses impacted by the Pandemic. A total loan pool of \$50 million was created and quickly disbursed to eligible small businesses. Again, FIs in the state played an integral role, with more than 30 FIs participating. The program, which was administered by the Louisiana Public Facilities

Authority, provided cash flow assistance to small businesses in meeting payroll, retain employees, and pay their rent and mortgages and other expenses.

Recently, the Federal Reserve System also established the \$600 billion Main Street Lending Program (MSLP) to support lending to small and medium sized businesses and nonprofit organizations that were in sound financial condition prior to the Pandemic. The loans are intended to help maintain operations until the businesses and non-profit organizations have recovered from, or adapted to, the impacts of the Pandemic. Under the MSLP, loans will be made available to eligible borrowers through third party FIs. The Fed, through the MSLP, will then purchase a 95 percent stake in the loan. The lender retains the remaining 5 percent. The loans start at \$250,000 to \$35 million. For additional information and the latest updates, visit <https://www.bostonfed.org/supervision-and-regulation/supervision/special-facilities/main-street-lending-program.aspx>.

The state has also created the Main Street Recovery Program (MSRP) that was funded with \$275 million from the \$1.8 billion in Pandemic relief provided by the federal government. The MSRP was launched on July 28, 2020, and will award grants to businesses that suffered interruptions or had expenses as a result of the Pandemic. The grants will go up to \$15,000. Initially, the focus of the MSRP was on the businesses that have not received funds from insurers or government programs. After the first 21 days, the MSRP will be open to all businesses domiciled in Louisiana as of March 1, have fewer than 50 employees, are at least 50 percent owned by a Louisiana resident, and filed state income taxes in 2018, 2019, or plan on filing in 2020. For additional information and updates, refer to <https://www.louisianamainstreet.com/>.

In addition to having to overcome a wide-range of challenges associated with the various stimulus programs, FIs were forced to take action to temporarily close branch offices; reduce the number of FTE employees; deal with a significant increase in demand for mobile and digital banking services; encourage the use of drive-through services; close and/or limit lobby usage; reduce and/or restrict operating hours; and limit the number of customers allowed into their lobbies.

The Pandemic has caused one of the fastest and steepest economic declines in U. S. History. It is blamed for an economic slowdown in the state with the hardest hit industries being -- mining and logging, leisure and hospitality, information technology, construction, and manufacturing. Oil prices briefly went negative in April, and natural gas prices hit a 25-year low in June. The slump in oil and gas prices, continued pricing volatility, combined with declining collateral values and a sharp rise in the number of bankruptcies relating to oil and gas exploration companies – are all tied to the Pandemic. The state’s unemployment rate was 10.5 percent in June, down from 13.9 percent in May, but up from 5.6 percent in June 2019. The national unemployment rate was 11.2 percent in June, up from 3.8 percent in June of 2019.

In conclusion, we are confident that FIs will continue to play a critical role in the stabilization and eventual recovery of state and local economies. FIs are well equipped for meeting Pandemic-related challenges and have higher levels of capital at this time– as compared to the prior crisis. The CARES

Act relaxed accounting standards relating to the reporting of Pandemic-related loan modifications as Troubled Debt Restructurings (TDRs), which would require higher earnings and capital charges. Federal stimulus efforts, including the PPP, have resulted in a large influx of deposits – adding to liquidity levels. As a result of their participation in the PPP, small, community FIs were able to attract and keep new customers/members, many from larger FIs, bringing other deposits with the relationship. Finally, regulators have pledged not to penalize FIs that have worked with borrowers/members in a prudent and reasonable manner in response to the Pandemic.

Useful Information Relating to the Pandemic:

- OFI Depository [Emergency Preparedness Guide – Pandemic](#) – July 24, 2020
- Financial Institution Letter: [Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Financial Institutions](#) – June 23, 2020
- OFI Emergency Declaration on [Annual Meetings of Financial Institutions](#) – March 30, 2020

Other Resources Relating to the Pandemic:

- LCUL – [COVID-19 Resources](#)
- Centers for Disease Control and Prevention (CDC) – [Businesses and Employers](#)
- CDC – [Coronavirus \(COVID-19\)](#)
- U.S. Department of Homeland Security – [Business Continuity Planning](#)
- U.S. Department of Homeland Security – [CISA Essential Workforce Guidance](#)
- U.S. Department of the Treasury – [Statement on Financial Services Essential Workforce](#)
- FFIEC – [Business Continuity Management](#)
- FinCEN – [FinCEN Notice to Financial Institutions Regarding COVID-19](#)
- NCUA – [Coronavirus \(COVID-10\): Information for Federally Insured Credit Unions and Members](#)

Regulatory Response – In response to the Pandemic, state and federal regulators have issued various guidance as it relates to how FIs are expected to work with borrowers/members that were negatively impacted by the Pandemic. In addition, we have issued a number of Emergency Declarations as it relates to the Pandemic. Our latest Emergency Declaration dated July 24, 2020, will remain in effect as long as there is a public health emergency relating to COVID-19, as declared by Governor Edwards, or until rescinded or replaced. The declaration includes Blanket Parity for Louisiana state-chartered financial institutions to exclude loans made under the PPP or the MSLP from their legal lending limits. The declaration also includes authority for the temporary closure and temporary relocation of branch offices, as well as the change in operation hours and functions. The extension also applies to the Annual Meetings of state-chartered FIs.

Recently, state and federal regulators have been receiving questions about Pandemic-related loan modifications. FIs have been receiving guidance from regulators since mid-March -- encouraging

them to work with their customers/members in ways that reflect the temporary nature of the challenges arising from the Pandemic. The CARES Act suspended GAAP troubled-debt-restructure (TDR) accounting for Pandemic-related loan modifications, but the June 30, 2020, Call Report includes new line items related to those modifications. FIs have been asking about the treatment of deferred interest and the reporting requirements for modified loans. They have also been asking about nonaccrual and ALLL treatment for these loans, and the ALLL in general in this environment.

The federal regulatory agency has provided answers to frequently asked questions (FAQs) related to the Pandemic at the following website:

For federally insured credit unions: <https://www.ncua.gov/coronavirus/frequently-asked-questions-regarding-covid-19-ncua-and-credit-union-operations>

In general, a short-term, Pandemic-related modification/concession made for a loan that was current as of December 31, 2019, should not be treated and reported as a TDR, but should be reported as a Pandemic-related modification on the Call Report. FIs are encouraged to maintain clear documentation in support of the modification so that examiners will treat the modification appropriately at the next examination. While OFI and the federal regulator have not expressed an opinion about the treatment of interest for modified loans, it is important to note that [Article 2001](#) of the Louisiana Civil Code generally does not permit interest on accrued interest to be recovered as damages unless added to the principal balance by a new agreement between the parties. Transactions exempted from this prohibition are described in [LRS 9:3509.2](#) and include, but are not limited to, those "entered into for commercial, business, or agricultural purposes."

Each option for the treatment of accrued interest has its own advantages and risks. One commonly discussed option is to defer interest to the end of the note, either increasing a balloon payment or extending the maturity. This choice recognizes the temporary effect of the Pandemic, but in some cases, this might delay recognition of an inevitable, underlying credit risk. Capitalization of interest in a new or refinanced note is permitted, but this might elevate credit risk through increased debt service. Full collection of interest at the end of the deferral period is also an option, but this might not be feasible for an affected borrower and could lead to economic loss for both the borrower and the FI.

While many of these decisions have already been made, we hope that this information will assist you as you navigate through this challenging period. We will continue to stay engaged at both the state and national levels as it relates to these matters in order to ensure fair and consistent treatment at future examinations. If you have any questions, please contact Chief Examiner Jonathan D. Finley at [\(225\) 362-1385](tel:225-362-1385) if you have any questions.

Hurricane Preparedness – The annual Hurricane Preparedness Meetings, which are normally hosted by the Louisiana Bankers Association (LBA) throughout the State of Louisiana in April and May, were canceled due to the Pandemic. However, coalition partners provided updated materials that are posted on the 2020 Louisiana Emergency Preparedness Coalition Resources webpage at https://lba.org/LBA/Publications_News/Emergency_Preparedness_Coalition/2020_LEPC_Resources.aspx?hkey=97ecc8bc-a806-4c52-ac87-4ef8df4e5b24.

Each year, prior to the start of hurricane season, we send out a request for primary and secondary emergency contact information for your disaster recovery team that will be used in the event that we have to deal with an emergency event. The disaster recovery team is expected to maintain emergency contact information for the Board and Senior Management. As part of this process, we sent each FI a request on May 19, 2020, to update their contact information. We asked that all FIs provide this information before June 12, 2020. If you have not already submitted this information, or if you have any questions about the request, please contact Executive Staff Officer Pam Skelton at 225-922-2627 or by email to pskelton@ofi.la.gov.

The Louisiana Business Emergency Operations Center (LABEOC) opened here in Baton Rouge in 2010, and relocated to the ULL Research Park, 635 Cajundome Boulevard, Lafayette, Louisiana, in 2015. Business leaders from Louisiana's financial services, communication, oil and gas, restaurant, retail and utility industries have been invited to participate in the LABEOC, representing a public-private partnership designed to make the state more self-sufficient during emergencies. In order for the LABEOC to have a significant impact in supporting the private sector, businesses are urged to register at <https://www.labeoc.org/welcome.aspx> so that they can begin participating in the state's preparedness, response, and recovery efforts. Since this is expected to continue to be a VERY ACTIVE HURRICAN SEASON, we again encourage all FIs to seriously consider registering with the LABEOC. Finally, remember to register ALL OF YOUR LOCATIONS!

LIBOR – Due to uncertainties relating to the duration and depth of the Pandemic-driven economic decline, discussions are ongoing regarding the possible delay of the transitioning away from the widely used reference lending rate known as the London Interbank Offered Rate (LIBOR). As reported previously, banks that serve on the panel providing the inputs to LIBOR had agreed to support the reference rate until the end of 2021. For a number of years, the Alternative Reference Rates Committee (ARRC) met in an effort to identify a set of alternative US dollar reference rates -- based on transactions from a more robust underlying market.

In June 2017, the ARRC identified the secured overnight financing rate (SOFR), which the Federal Reserve Bank of New York publishes in cooperation with the U.S. Office of Financial Research, as the reference rate that represents best practice for use in certain new US dollar derivatives and other financial contracts.

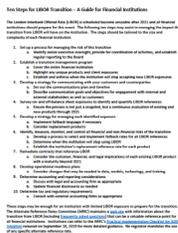
FIs may select any reference rate to use, and regulators are not mandating the use of SOFR, or any other rate. Participants in many cash markets using LIBOR as a reference rate are now actively seeking to mitigate their risks by seeking more robust contract language while considering transitioning away from LIBOR to a new reference rate.

To-date, the federal regulatory agencies have not issued supervisory guidance on this topic. The website of the ARRC (www.newyorkfed.org/arrc) is an excellent source of the latest information on developments. The FFIEC hosted an industry webinar in December that provides background information. The archived presentation can be viewed by registering at <https://www.webcaster4.com/Webcast/Page/583/28297>.

The ARRC's Practical Implementation Checklist for SOFR Adoption (<https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/ARRC-SOFR-Checklist->

[20190919.pdf](#)) released on September 19, 2019, can also be a good reference source. The Financial Standards Accounting Board (FSAB) has also provided information about managing the transition in a recent exposure draft and FASB in Focus (https://www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176173288427&d=&pagename=FASB%2FFASBContent_C%2FGeneralContentDisplay).

As mentioned previously, we are encouraging FIs to begin taking risk management actions now to manage the transition from LIBOR. The attached **ten step checklist**, which was developed by the Conference of State Bank Supervisors (CSBS), may be used as a starting point for a FI's work in this area. Examiners have been provided a companion job aid that follows these same steps so the checklist can facilitate a discussion about the LIBOR transition at your next examination.



*Ten Steps for LIBOR
Transition*

Banking Marijuana-Related Businesses – As mentioned previously, we expect FIs to follow the FinCEN guidance (mostly relating to the filing of SARs) and employ prudent risk management practices. This is especially important when any related product or service represents a concentration of credit to or funding from such businesses. In other words, the FI may engage in the business, but must be aware of the risks and take steps to identify, measure, monitor, and control those risks.

Due to the number of inquiries that we received and the complexities associated with state and federal laws pertaining to the banking cannabis, specifically medical marijuana, hemp, and hemp-derived products, OFI prepared a Cannabis Banking Bulletin that was sent out on February 6, 2020, and posted on our website www.ofi.la.gov immediately thereafter.

You can also reference the CSBS Cannabis Job Aid at the following link for additional information: https://www.csbs.org/system/files/2020-02/CSBS%20Cannabis%20Job%20Aid_0.pdf. If you have any questions, please contact Chief Examiner Jonathan D. Finley at [225-922-0637](tel:225-922-0637) or jfinley@ofi.la.gov.

In addition, the Louisiana Department of Agriculture and Forestry's final rule on hemp was published on February 20, 2020. OFI and LDAF personnel have met to discuss the implications for banks and thrifts in Louisiana, and have training planned for our examiners. A few key takeaways from the meeting are listed here. This is not an exhaustive list. You are encouraged to read and understand the rule.

- Under the new rule, the LDAF will issue four different types of annual licenses for growing, processing, transportation, and seed production. Each has its own purposes and requirements. It is important for a lender to become familiar with the licensing requirements to ensure compliance of borrowers and to prevent related loss to the bank or thrift.
- If the borrower is a grower, the lender should, among other prudent underwriting and administration activities, consider the following items:
 - Ensure that a grower has a forward sales contract for the product (also required for USDA crop insurance).
 - Understand the distinction between lots. It might be wise for the grower to subdivide a crop into physically separate lots to limit any required destruction of crops.
 - Understand that the grower may periodically test the THC level in the crop during the growing season to better predict compliance at harvesting.
- If the borrower is a contract carrier, the lender should, among other prudent underwriting and administration activities, consider the following items:
 - Understand that the crop may become “hot” in storage or transport and that insurance available today reportedly does not cover that scenario.
 - Understand that some states are operating under 2014 rules, while others are operating under 2019 rules. The THC concentration is calculated differently between those two groups. A product that might be legal in a “2014” state, might not be legal in a “2019” state. Louisiana is a “2019” state. Imports from out of state might be an issue, and transportation across states might be an issue.
- The price of hemp-related products is affected by increased production in different parts of the country. It is important to know with whom your borrower has a contract and for what price/rate. It is also important to know that storage times will vary and products might become “hot” in that time and exceed legal THC limitations. Insurance available at this time does not appear to cover that loss.
- The comment period on the USDA rule closed in January 2020, and the final rule might take a year or more to become final.

The final LDAF rule can be viewed on pages 169 through 179 of the February 2020 issue of the Louisiana Register, linked here: <https://www.doa.la.gov/osr/REG/2002/2002.pdf>.

If you have any questions about cannabis banking, please contact Chief Examiner Jonathan D. Finley at [225-922-0637](tel:225-922-0637) or jfinley@ofi.la.gov.

FINANCIAL PERFORMANCE OF NATURAL-PERSON CUs IN LA

As of June 30, 2020, there were 169 natural-person credit unions domiciled in the State of Louisiana, which included 30 state-chartered credit unions, representing 17.8 percent of the total. As of this same date, these credit unions reported total assets of \$13.6 billion, with state-chartered credit unions holding \$1.2 billion, or approximately 9.0 percent of the total.

As of June 30, 2020, state-chartered credit unions reported an aggregate Net Worth ratio of 13.78 percent, which was well above the aggregate ratio reported by all credit unions domiciled in the State of Louisiana of 10.99 percent, and all credit unions nationwide at 10.48 percent. State-chartered credit unions also reported a return on average assets (ROAA) at 1.30 percent and net interest margin (NIM)

at 4.18 percent, which exceed the same ratios for all credit unions in Louisiana. The ROAA and the NIM are above the nationwide averages of 0.57 percent and 2.87 percent, respectively. However, State-chartered credit unions reported higher ratios for delinquent loans and net charge-offs than those groups.

The **following chart** illustrates the level of delinquent loans/total loans for state-chartered credit unions in Louisiana, all credit unions in Louisiana, and all credit unions nationwide from December 31, 2016, through December 31, 2019:

Delinquent Loan Ratio

Date	State-Chartered	All LA-Domiciled	Nationwide	Diff (LA vs NW)
6/30/2020	0.83%	0.80%	0.58%	0.22%
3/31/2020	1.18%	1.02%	0.63%	0.39%
12/31/2019	1.32%	1.13%	0.70%	0.43%
9/30/2019	1.16%	0.93%	0.66%	0.27%
6/30/2019	1.26%	0.91%	0.63%	0.28%
3/31/2019	1.19%	0.86%	0.58%	0.28%
12/31/2018	1.29%	1.06%	0.71%	0.35%
9/30/2018	1.37%	0.96%	0.67%	0.29%
6/30/2018	1.15%	0.90%	0.67%	0.23%
3/31/2018	1.28%	0.97%	0.66%	0.31%
12/31/2017	1.42%	1.17%	0.81%	0.36%
9/30/2017	1.24%	1.03%	0.79%	0.24%
6/30/2017	1.29%	1.01%	0.75%	0.38%
3/31/2017	1.33%	0.90%	0.69%	0.42%
12/31/2016	1.36%	1.12%	0.83%	0.48%

The **following chart** illustrates the level of net charge-offs/average loans for state-chartered credit unions in Louisiana, all credit unions in Louisiana, and all credit unions nationwide from December 31, 2016, through June 30, 2020 (please note that, for the most recent five periods, it represents a rolling 12-month net charge-off ratio):

Net Charge-Offs Ratio

Date	State-Chartered	All LA-Domiciled	Nationwide	Diff (LA vs NW)
6/30/2020	1.14%	0.58%	0.55%	0.03%
3/31/2020	1.22%	0.61%	0.57%	0.04%
12/31/2019	1.31%	0.60%	0.57%	0.03%
9/30/2019	1.37%	0.62%	0.57%	0.05%
6/30/2019	1.33%	0.64%	0.57%	0.07%
3/31/2019	1.56%	0.62%	0.57%	0.05%

12/31/2018	1.35%	0.67%	0.58%	0.09%
9/30/2018	1.36%	0.67%	0.57%	0.10%
6/30/2018	1.15%	0.67%	0.60%	0.07%
3/31/2018	1.32%	0.68%	0.60%	0.08%
12/31/2017	1.37%	0.76%	0.60%	0.16%
9/30/2017	1.35%	0.66%	0.56%	0.10%
6/30/2017	1.30%	0.65%	0.57%	0.20%
3/31/2017	1.37%	0.66%	0.58%	0.19%
12/31/2016	0.97%	0.61%	0.55%	0.18%

Relevant Issues From Previous CEO/COB Updates:

- Protection for Vulnerable Adults from Financial Exploitation – See *November 20, 2018, Edition*
- Lease Accounting – See *November 20, 2018, Edition*
- Residential Group Common Bond– See *May 2, 2019, Edition*
- Cybersecurity – See *September 6, 2019, Edition*
- Current Expected Credit Losses (CECL) Model Update – See *December 23, 2019, Edition*



November 20, 2018, Edition



May 2, 2019, Edition



September 6, 2019, Edition



December 23, 2019, Edition

** This PDF will need to be opened in Adobe Acrobat to view the attachments*

5300 Call Report Submissions and Online Profile Information – Call Report preparers are again asked to pay close attention to the NCUA’s deadlines for the submission of Call Reports and Profile Updates. NCUA adjusted all Call Report and Profile submission due dates to the fourth Friday of each month following the end of a quarter. The NCUA is currently exercising its authority to impose civil money penalties (CMPs) against credit unions that do not meet the quarterly filing deadlines for their 5300 Call Reports. CMPs will be imposed against late filers, and the NCUA will make public the names of FICUs assessed with CMPs. More information about the filing of Call Reports can be found at the following link: <https://www.ncua.gov/regulation-supervision/Pages/regulatory-reporting/cuonline.aspx>

You are also reminded that state-chartered credit unions may be fined \$50 for each day its Call Report remains unfiled after the required due dates in accordance Section 646 (B)(2) of the Louisiana Credit Union Law. Additionally, the NCUA periodically modifies tabs and required information for the credit union online profile. Please pay close attention to the NCUA's announcement of the addition of new profile items and changes in order to submit the required information. Profile items completed after submitting your Call Report will not flow into the system until the credit union submits a new Call Report or resubmits an existing Call Report.

Information on the NASCUS Website– You are encouraged to periodically check the NASCUS website at www.nascus.org for information and updates on the most current matters affecting state-chartered credit unions.

The Regulatory Resources Section (<https://www.nascus.org/regulatory-resources/>) contains details on NCUA proposed rules, requests for comments, final rule summaries, letters to credit unions, and regulatory alerts that may affect state-chartered credit unions.

The Legislative Affairs Section (www.nascus.org/legislative-affairs/) provides information and NASCUS' commentary on proposed and enacted federal legislation that may affect state-chartered credit unions. Generally, NASCUS comments only on federal regulations that may affect the dual chartering system, state-chartered credit unions, share insurance requirements, or infringe upon state regulatory authority.

The Around the States Section (www.nascus.org/around-the-states/), which includes an interactive map of the United States, features news stories from throughout the nation. To submit a news article for consideration, email NASCUS Vice President of Communications Shelton Roulhac at sroulhac@nascus.org.

Closing Comments – If you have any questions regarding any of the topics and/or materials contained in this Update, please feel free to contact either of us at the following:

Chief Examiner Jonathan Finley at 225-922-0637 or by email at jfinley@ofi.la.gov
Chief Examiner Sid Seymour at 225-925-4675 or by email at sseymour@ofi.la.gov