



Credit Risk Ready Podcast

Host Linda Keith, CPA, With Laurie Stewart

Credit Risk Focus as We Head into the Recession: A Practical Approach

Hi, this is Linda Keith, CPA, with Credit Risk Ready, a podcast where we interview senior credit and lending professionals from community financial institutions across the United States, their regulators, and banking advisors to better understand and mitigate credit risk.

In this episode, Laurie Stewart will share what she is hearing from other bank CEOs around the country as to what now and what next to mitigate credit risk as we head into the pandemic-related recession. Laurie is president and CEO of Sound Community Bank, a \$71- million bank in Washington State with a presence in the city and in the country, Seattle, and the Olympic Peninsula. She served on the FDIC Advisory Committee on Community Banking, the CFPB Community Bankers Advisory Council, and she currently serves as the Chair of the American Bankers Association.

Thanks for being here, Laurie.

Laurie Stewart:

It is my great pleasure.

Linda Keith:

So, Laurie, I served on the national board of a professional association, as you do now at the ABA. And there's that time when you've just gotten together and you're not yet doing business and you have these conversations about what it is top of mind. So, in those conversations with your fellow board members, who are CEOs from banks around the United States, what is the hottest button right now in the hot button inducing pandemic?

Laurie Stewart:

Well, Linda, none of us have ever lived through a pandemic before. And the experience of history is not informing us very well. We haven't had this experience before. I think one of the things that we do is we look back and we say, "How did we perform in the last recession? And how is it different?" So, what I

Credit Risk Ready Podcast With Laurie Stewart

Credit Risk Focus as We Head into the Recession: A Practical Approach

hear from bankers across the country is that the speed of this potential credit crisis is much, much different. We had a health crisis that became an economic crisis and led us to recession, and will we have a deep credit crisis? And what can we do to prevent that deep credit crisis? So what can we do? We're taking a number of actions I'd be happy to share with you.

Linda Keith:

That'd be fantastic. So, what are some of those "what can we do?" answers?

Laurie Stewart:

I think that the speed to try and remediate is much different in this era, in this recession, than it was in the past. And I think that's serving us well because we've been quick to give forbearance modification, work with borrowers, whether they're consumers or commercial borrowers. That was not the case in the last recession.

Linda Keith:

Is it speed that's serving us well, or is the recognition that we have to act quickly what's serving us well?

Laurie Stewart:

Well, I think it's a little bit of both. First is the recognition and bankers are cautious folks, right? We want to manage the risk and mitigate it. But in this case, I hear from bankers. And certainly it's true in our bank, that if you identify, if you have a problem or you think you're going to have a problem making your mortgage payment, making your business loan payment, then we're jumping in with both feet and offering forbearance or interest only, or other modifications way before we might have in the past when we said, "Show me, let me try other things first."

Linda Keith:

Right. So, we're not throwing caution to the wind exactly, but we're definitely having to mitigate caution with the need to mitigate risk.

Laurie Stewart:

That's correct. And I think the regulators are helping us here too. They've been very clear that we can make these actions with borrowers and not have to classify them as troubled debt restructures and some of those things. So that makes us a little more anxious to move quickly as opposed to evaluating each modification.

Linda Keith:

And we know that if we don't move quickly in this environment, some of our borrowers, their businesses will actually fail because we were moving too slowly.

Laurie Stewart:

That's right. And sometimes I'm worried it's the borrowers that don't talk to us, right? The borrower that calls us or that we reach out to and say, "Hey, how's it going?" ...we can get something happening. Sometimes I find very small business borrowers a little bit hesitant to talk to their bankers and say, "Help." And so, we've really been active in reaching out. Yeah, we should talk about the PPP loans too.

Credit Risk Ready Podcast With Laurie Stewart

Credit Risk Focus as We Head into the Recession: A Practical Approach

Linda Keith:

Well, the PPP loans were a solution, but also a fly in the ointment at the same time, weren't they, as far as how much time you had to jump in and do something quickly and identify which borrowers could be benefited?

Laurie Stewart:

It's an amazing thing to think about, right? In literally two weeks, we had to create a loan program and we had no idea what the demand would be. And we had to take a leap of faith with the SBA. In our bank, we made 800 PPP loans. That's twice as many commercial loans as we would make in a year.

Linda Keith:

Wow. Did you have enough guidance from the SBA as you were doing that, or were you trying to interpret while you were implementing?

Laurie Stewart:

Well, I think one of the things that was hard for all of us is, again, bankers like certainty, right? And in this case the SBA gave us some interim guidance and bankers had to decide, "Can I take that leap of faith? Will more guidance come out? Will it be okay? Or should I drag my feet?" And I get that that risk decision is different for every banker, but we had literally thousands of banks who said, "Yes, I will take that leap of faith. I will energize my folks. We'll pivot. And we will do everything we can to make those loans."

Linda Keith:

Right. Well, I heard you on an NPR interview after the first group of loans, but before the second amount was approved. And as I recall, you said you had about 600 applications, managed to get 300 through before they shut the door. But you were ready to throw those 300 back into the mix when they added financing for it.

Laurie Stewart:

That's right. And we were able to get those pending applications all approved in the second wave.

Linda Keith:

Congratulations. Now is the second wave really over because I hear some businesses are actually paying back the loans already because they're realizing they're not going to get forgiven or their situation has changed. So, is there still money available from PPP or is the door closed again?

Laurie Stewart:

There's still money available. The program ends on June 30th. The loans have to be approved on that date. So, most of us will stop taking applications probably the week before. We're going to try and leave our link open as long as we can, since there's still money. But at some point, we'll have to close down.

Credit Risk Ready Podcast With Laurie Stewart

Credit Risk Focus as We Head into the Recession: A Practical Approach

Linda Keith:

Well, and actually, by the time this interview ships, we'll be past the 30th, but stay tuned because they can change their mind and add more money to it later. So, we've got to be ready to come back in if they open that spigot again.

Laurie Stewart:

Exactly, Linda. And if there's money left over, which I don't think it's going to be exhausted, as, what's this, the 19th of June that we're talking here today.

Linda Keith:

Right.

Laurie Stewart:

Then I think it's possible it could be extended.

Linda Keith:

Yeah. One of the reasons that I do mention the date is because things are changing so fast that maybe the PPP will be done, but there'll be something else that will become available. So the idea of how quickly we have to make a decision as a bank, do we move on something that's not completely clear because it will benefit our customers and our borrowers and take a risk ourselves? That's going to come up over and over again through this pandemic recession because I just don't think this is a short recession.

Laurie Stewart:

I would agree with you. And I would say that, that next thing on the horizon is the Fed Main Street lending program that goes live within the next week or so.

Linda Keith:

And is that pretty much put to bed, as far as do you feel more comfortable that you have better guidance on that than you did on the PPP, or is it still something where it's going to be made more clear as you go along?

Laurie Stewart:

I think it's a combination of both. I think there's been a lot of guidance from the Fed and they've also taken input from industry group. They've been responsive to make changes and reduce the loan amount, for instance, and the terms and the rates, but there are still pieces of that that will be a leap of faith for bankers. Because it's more medium-sized business, there will be less immediate demand. We won't have that self-employed and some of those contract gig workers won't be in this one.

Linda Keith:

Right. Well, and so maybe because it's more medium-size you also might have financial statements you could actually rely on or other information that we just didn't have.

Credit Risk Ready Podcast With Laurie Stewart

Credit Risk Focus as We Head into the Recession: A Practical Approach

Laurie Stewart:

Right, yeah. Exactly.

Linda Keith:

Exactly. Well, so let's get even more practical at this moment because I think what we've established here is things are changing so quickly and not just in banking, clearly: in the health field and in every different way, this coronavirus has pretty much thrown us all into the soup. And we're all trying to figure out how to impact our sphere of influence. Yours is banking, and I know that you are Chair of the American Bankers Association and our professional associations really are and need to step up and provide as much guidance and assistance as possible. So what are some of the resources that the American Bankers Association and other professional banking associations are providing the banks as we navigate through this challenge to basically help lead the way or hold our hands as we go?

Laurie Stewart:

Great question. The American Bankers Association has taken a tremendous leadership role and provided a huge amount of resources for us as bankers, community bankers, small bankers, mutual banks, big banks. They've published all kinds of resources and really helps us grapple with questions. Like at the beginning, think about this: do we let people in our branches with masks on their face? I mean, we would never have done that before, right? That would be a hold up, a robber.

Linda Keith:

I had to go to a bank, and it was March 14th. And I had to wear this mask and you had to knock on the door. They would let you in one person at a time. And I thought about that very thing. So, I kept the mask off until they saw me at the door and then put it on because I knew they had to be able to see my face, right?

Laurie Stewart:

Right. So, we ask people, there are some that we recognize in their mask, but we ask them to just pull the mask down for a moment so we can identify them. But it's those kinds of things that we've had lots of guidance and help. It seems silly, but it's very helpful. How do you implement social distancing, physical distancing in your branch? And we've shared input. ABA has some staff members with really significant risk management and mitigation experience. So, it's been a wonderful resource for bankers across the country.

Linda Keith:

Well, and everybody is game on. Certainly, the American Bankers Association and you, as their current chair, are stepping up. Let's just do one more piece to this part of the puzzle. We started with this idea that even though we have not seen something like the pandemic recession, we absolutely have seen recessions before. We've seen major credit disruptions and there are some steps that we can take. So in the frenzy to respond to this, what are those calming steps where you say, "All right, here's what the bank should do right now to protect the bank and to protect our borrowers, that is not different because of the nature of this recession?"

Credit Risk Ready Podcast With Laurie Stewart

Credit Risk Focus as We Head into the Recession: A Practical Approach

Laurie Stewart:

Again, I think the things we learned from the last recession were be quick and be in constant contact with your customers. Really create avenues so you can have the discussion, "What's happening with you, what's happening with your business?" And it's very different, right? If I have somebody in the restaurant industry, they're suffering terribly. I have a gas station client that told us that the gas part of his business was doing poorly, as you might imagine, because nobody's coming to work, right, going anywhere. But that his convenience store business was just really busy, a convenient place for people to grab a quart of milk or whatever. So, there's mixed results. Multi-family in most of our markets has held up pretty well. People are paying their rent. So it is that conversation, "What's happening with you? How are you doing?"

Linda Keith:

And not making the assumption because I think that those small gas stations, the biggest revenue source actually is the convenience store side. If we assume that the gas station must be in trouble and we haven't talked to the borrower, maybe that's not the case for them.

Laurie Stewart:

Exactly. Well, and even the restaurateurs, right? Some of them had a takeout option already and they just pivoted and did more of that. Others had to build that. Some, that was a part of their business. Again, were maybe more successful than a sit-down, fine dining restaurant. So each situation is different.

Linda Keith:

Well, and this recession is different. In my business I do bank training. And so the great recession, jeez, Louise. That's one of the places the banks cut back on for a while. We don't need to spend money on training, right? And so I had a big impact, but between then and now I developed this online training option that's now got 10 years running and I haven't seen a blip yet in my company from this recession.

Laurie Stewart:

Oh, that's fabulous.

Linda Keith:

I keep thinking it's going to hit, but actually, no. And we now have some regulators in that are newer. So I think a lot of the banks are realizing we need to be sure that our frontline has good credit analysis skills because things are deteriorating. And so, actually, it could turn out that me and The Home Depot are both doing better because the recession, right? Laurie, thank you so much for joining us and bringing us this insight from the front lines of the bank CEOs, right through to your experience in your bank, right there on the ground, pivoting quickly and recognizing that there are things we already know from other recessions, but also that we need to shift to handle this one. Thanks for joining me.

Laurie Stewart:

Thank you.

Credit Risk Ready Podcast With Laurie Stewart

Credit Risk Focus as We Head into the Recession: A Practical Approach

Linda Keith:

Be sure to check the show notes for the links to the American Bankers Association updated resources as we navigate through the COVID-19-induced recession. Thanks for joining us on the Credit Risk Ready podcast. Subscribe, comment, or share on social media to stay connected and spread the word. Join me next time as we bring our bank, our customers, and our communities through the recession, safe and sound. Take care.

About Laurie Stewart

Laura Lee (Laurie) Stewart, president and CEO of Seattle-based Sound Community Bank celebrates more than 30 years at the helm of Sound Community Bank. In that time, she led the conversion of the organization from a \$38 million credit union to a commercial bank which grew to be more than \$718 million in assets.

Stewart maintains a long history in community banking and participation in industry affairs. Stewart currently serves as the Chair of the American Bankers Association, representing the Nation's \$18.6 trillion banking industry and the employment of more than two million workers. She also holds a position on the board of directors for the Federal Reserve Bank of San Francisco's Seattle Branch.

Previously, Stewart served as Chair of the Board of Directors of the Washington Bankers Association (WBA), where she helped create the WBA's Executive Development Program. In addition, Stewart was one of 14 bankers selected to serve on the inaugural FDIC Advisory Board in 2009, and in 2012, she was named to the Community Bank Advisory Council of the Consumer Financial Protection Bureau.

In 2019, she was named Community Banker of the Year by American Banker and received an Executive Excellence award from Seattle Business Magazine. American Banker also named her as one of its Most Powerful Women in Banking in 2011, 2015, 2017, 2018, and 2019.

Sound Community Bank
<https://www.soundcb.com/>

About Linda Keith

Linda Keith CPA draws on her 30+ years of experience consulting with and training lending institutions, background in public accounting, 15+ years as CFO of the family residential construction company, experience as an Examiner with the Washington State Auditor's Office, and as adjunct faculty in Accounting Principles and Managerial Accounting to help lending and credit professionals say, "Yes," to good loans.

Credit Risk Ready Podcast With Laurie Stewart

Credit Risk Focus as We Head into the Recession: A Practical Approach

Of course, you know those are not consecutive years or she'd be over 100 by now!

Linda is known by her clients to be both practical and funny. In fact, there is a move afoot to change the 'P' in CPA to stand for 'Playful'. The fact is, people absorb ideas and learn better when they are having a little bit of fun. So, Linda brings the fun along with her practical knowledge and depth of understanding to provide credit analysis training and presentations that make a difference.

She is the founder of [Lenders Online Training](http://www.LendersOnlineTraining.com), a virtual classroom approach to improving tax return and financial statement analysis capabilities; the host of the [Credit Risk Ready Podcast](http://www.CreditRiskReady.com); and a [consultant/trainer on credit risk](http://www.LindaKeithCPA.com) to banks and credit unions across the country.

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