Economic Impact of COVID-19

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How Charlotte's Banks Responded to COVID-19

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Prior to the COVID-19 pandemic, several banks were rolling out major expansion plans in Charlotte, North Carolina. JPMorgan Chase, for example, planned to foray into retail banking to complement its other offerings in Charlotte, including private, corporate and commercial banking. U.S. Bank already had a strong foothold in the Charlotte market via its Corporate Trust venture but wanted to deepen its retail presence in the area by opening retail branches. Fifth Third Bank planned to open 20 new branches in the Charlotte area. In addition, Truist Bank, the result of BB&T Bank merging with SunTrust Bank, chose Charlotte as its headquarters. The Truist merger created the sixth largest bank in the United States by assets.

Then COVID-19 hit Charlotte (and the United States) in March 2020, with stay-at-home orders in place for several weeks, followed by gradual reopening in the months thereafter. Charlotte banks responded by letting employees work from home when possible, closing branches temporarily, limiting branch access to drive-thru and, in some cases, stockpiling ATMs with extra cash to help meet increased customer demand. Since then, many branches have reopened, and corporate bank employees are gradually returning to their offices.

In June 2020, the Federal Reserve conducted and released the results of a "stress test" for 34 banks with assets of $100 billion or greater. The test simulated various recessionary scenarios and found that banks were generally in good shape, especially compared to their preparedness during the 2007-2009 recession. (Stress tests gauge whether a bank has sufficient capital to survive a downturn without government support.) The Fed tested three COVID-19 recession scenarios in terms of output and employment levels, ranging from least damaging to most damaging. The first was a quick, steady recovery (V-shaped recovery). The second was a scenario where the economy only slightly recovered in 2020 (U-shaped recovery). The third represented a second wave scenario where the economy slightly recovered before re-entering a recession (W-shaped recovery). All banks tested would have had sufficient capital in the V-shaped recovery, and some banks would have

had sufficient capital in the U- and W-shaped recovery scenarios. No banks would have been undercapitalized in the U- and W-shaped scenarios, although some banks would have approached the lowest acceptable rate of capital.

After the first round of stress tests, the Federal Reserve System decided to stop buybacks and cap dividend payments for systematically important banks to ensure they could maintain sufficient liquidity. The Fed allowed buybacks and dividend payments to resume in the first quarter of 2021 for these large banks as long as they made a sufficient profit the previous year. The buybacks and dividend payments were limited to each bank's average earnings the past year. This decision came after a second COVID-19 stress test, with results announced in December 2020. This test found that in even more severe global recessionary scenarios, with unemployment rates of 11 percent and 12.5 percent, respectively, banks were well within required capital ratios. In March, the partially lifted restrictions on buybacks and dividends were fully lifted, except for banks that did not meet stress test minimum risk-based requirements.

Many banks, in Charlotte and beyond, have significantly increased their liquidity during these uncertain times. According to the Fed Board of Governors' data visualized by the St. Louis Fed, weekly average reserves were approximately $1.61 trillion on January 1, 2020, and doubled to $3.24 trillion by June 2020. This past March, weekly average reserves began to climb again, hitting a new peak of $4.186 trillion in August, almost a year and a half after the pandemic began in the United States. (Reserves are balances of banks' Master Accounts at the Fed.)

Due to the economic uncertainty surrounding the pandemic, banks were required to set aside money to cover unpaid loans, known as loan loss reserves. Many banks expected foreclosures to increase as unemployment rose due to the pandemic, and thus reduced their second quarter of 2020 profits to boost their loan loss reserves. But in the third quarter of 2020 earnings calls, some large banks stated that they could actually reduce loan loss reserves moving forward because those large losses never materialized. Most major banks continued to reduce their loan loss reserves through the second quarter of 2021, which boosted second quarter net income. The increased income has been used in certain cases to fund share buybacks under the Fed's new modified rules.

Banks also saw higher deposits due to increased savings and stimulus checks. The personal saving rate increased from around 7 percent pre-pandemic to almost 34 percent in April 2020 and remained relatively elevated, albeit with some ups and downs, through the spring of 2021. According to a NBER working paper, 33 percent of people surveyed decided to mostly save their CARES Act stimulus checks. In addition, some outstanding loan items on banks' balance sheets dropped as the stimulus checks fueled an increase in paid-off consumer debt: Fifty-two percent of people surveyed used their CARES Act money to pay down debt, including credit cards, personal loans, mortgages or student loans.

Paradoxically, as banks found themselves awash in liquidity, many institutions decided to tighten their lending standards and lent less than before COVID-19. In times of economic uncertainty, banks may wish to preserve their liquidity for the safety and soundness of their institutions and may have less appetite for risk, thus raising underwriting standards for loans. At the beginning of the pandemic, some banks stopped lending cash-out refinancing and home equity lines of credit loans. By the third quarter of 2020, 71.7 percent of U.S. banks reported stricter standards for credit card and consumer loan lending. This trend has continued into the summer of 2021 as the housing market has become more competitive.

Banks with planned expansions in Charlotte have not altered those plans much in the wake of COVID-19. Construction on banking branches and offices has continued since March 2020: The first JPMorgan Chase branch in Uptown opened in March that year, and by November of this year, JPMorgan Chase had opened 12 more in the Charlotte area. U.S. Bank opened two branches within the last two years, and Fifth Third opened several as part of their plan to add approximately 20 branches in Charlotte.

But one major change across many banks with a presence in Charlotte, including those expanding physically, is heavy investment in digital banking technologies. Truist, for instance, shifted their post-merger strategy toward creating several digital products for customers, including a chat bot, digital forms and signatures, and an online mechanism to apply for PPP loans. However, the expanding banks, like Fifth Third, have recognized that physical branches are still necessary for certain transactions and for customers who do not wish to use online services, though, new branches may be smaller and require fewer employees.

As large U.S. banks continue to expand into Charlotte, the number of community banks continues to decline, from 102 in 2009 to 45 in 2019. This could affect funding sources for small companies and startups, since community banks disproportionately provide small business loans. It also presents consumers with fewer banking choices — although these same consumers could benefit from new entrants vying over market share for Charlotteans' finite savings and checking deposits.

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