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The New Abnormal

Banking leaders from Tennessee and Virginia try to make sense of the new financial reality emerging in the wake of the COVID-19 pandemic

Plus

Ballad Health CEO Alan Levine briefs Congress on the implications of the nursing shortage

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The State of Banking

Banking leaders in Tennessee and Virginia explore the effects of the pandemic and the road ahead

by Dave Ongie

Navigating the post-pandemic world has proven to be a bit disorienting for business leaders around the globe. At times, it's easy to feel like up is down and down is up.

The banking industry is as good a window as any through which to view the current landscape of commerce in our region. "We're woven into the fabric of all those different (businesses) to help them be successful," said Leton Harding, chairman of the Virginia Bankers Association and president and CEO of Powell Valley National Bank. "You can't separate us."

With that being said, examining the state of banking in our region is an excellent way to map out the solid ground beneath our feet in a swiftly changing business environment. The COVID-19 pandemic dramatically altered day-to-day operations in every industry, and the recovery has been wrought with labor shortages, supply-chain issues, changing behavior of consumers and workers, the fear of inflation and rising interest rates and the emergence of technology that is being used in ways never before imagined.

In short, if it is of concern to you, leaders in the banking industry are dealing with it as well. And what's more, they have their finger firmly on the pulse of the financial trends that will affect you in the months and years ahead.

With that in mind, *The Business Journal* sat down with Bruce Whitehurst, president and CEO of the Virginia Bankers Association, Colin Barrett, president of the Tennessee Bankers Association, Allen McClary, chairman of the Tennessee Bankers Association, and Harding, McClary's counterpart in Virginia, to discuss the impact the pandemic has had on the industry and the outlook as the recovery begins.

Bruce Whitehurst, President and CEO, Virginia Bankers Association

- 28 years with the VBA
- CEO for the past 14 years
- Started his banking career in 1983

Colin Barrett, President, Tennessee Bankers Association

- 16 years with the TBA
- President for the past 7 years
- Previously worked for the American Bankers Association

'Flying the plane while building it'

At the outset of the pandemic, businesses that were able to continue operating had to find a way to do so remotely. On-the-job training in Zoom and other virtual meeting software was happening in many industries as employers did their best to keep things rolling along despite the fact their employees were spread out in home offices or working alternating schedules to allow for social distancing.

It was no different in the banking industry, but there was an added sense of urgency when the CARES Act introduced the concept of the Paycheck Protection Program. Banks in Tennessee and Virginia ultimately facilitated 470,000 PPP loans totaling around $30 billion, which helped businesses keep their doors open and their employees on the payroll.

But getting the PPP loans off the ground required a heavy lift on the state and local level as Barrett and Whitehurst leaned on their congressional delegation and other connections in federal government to build the infrastructure necessary to allow the loans to be administered in an efficient, cohesive fashion. Barrett likened the process to "flying an airplane while you're building it," and recalls conference calls in the spring of 2020 with over 700 participants as bankers hammered out the details of the program.

The challenge presented by the pandemic was met through a blend of ingenuity and hard work.

"From an association perspective, it was so interesting that when we were all working remotely, we were more connected as an industry than we've ever been," Whitehurst said. "It was a very interesting dynamic, but one in which the role that Colin and his team played and our team in Virginia played, has never been more clear than it was in 2020."

Awash in Cash

While the PPP loans generated the desired effect – businesses and organizations retained their employees through the worst of the shutdowns and stay-at-home orders – stimulus payments to individuals threw bankers and retail businesses for a bit of a loop.

At first, many bankers expected the federal stimulus payments would mostly be passing through their banks. The checks would either be cashed or put into checking accounts to be spent via debit cards.

But a funny thing happened on the way to the cash register. Many Americans parked that stimulus money in savings accounts and enjoyed having a financial cushion for the first time ever.

Although the financial crisis in 2008 and the crisis surrounding the COVID pandemic are vastly different – one was financial, one was medical – Harding wonders if living through both of them has dramatically altered the priorities of American consumers.

"I think going through the '08 crisis and this one, you wonder how much of a lasting legacy in terms of being savers and not spending as much will be with us now, much akin to what my parents or grandparents experienced during the Great Depression," he said.

Regardless, banks are now experiencing a curse that would be a blessing to most businesses – they are awash in cash. In the case of Harding's institution, the $400 million bank has around $100 million in deposits. With interest rates where they are, they can only generate $100,000 a year if that money isn't put to work.

McClary is experiencing a similar problem at UBank in Jellico, Tennessee, where he serves as the chairman and CEO. "You've got to loan it out, and if you can't loan it out, you're hurting bad," he said. "It's a tough situation, but we're hoping to solve that problem in the next few months."

The inability to lend out a high enough percentage of deposits – Whitehurst said 75 to 80 percent is ideal – to generate higher profit margins is putting downward pressure on the amount of interest banks can pay on savings accounts or money market accounts, and there is no end in sight. However, Harding said banks are starting to see an uptick in loan demand from businesses dealing with supply chain issues.

"We are seeing more businesses using lines of credit and establishing lines of credit, not because they historically needed to, they're having to order materials 30 days or three months ahead of time and they have to pay for it now knowing they're not going to get it for 90 days," he said.

A Tale of Two States

There was a drastic difference between Tennessee's response to the COVID-19 pandemic and Virginia's response in terms of the way businesses were regulated. Tennessee opened up relatively quickly while Virginia was the first state in the nation to adopt state-level COVID regulations, which were far more restrictive throughout 2020 and into 2021.

Whitehurst said the contrast between the policies was on full display in our region, where rules differed along the state line between Virginia and Tennessee.

"In terms of the stay at home order being longer in Virginia than Tennessee, I'm sure without a doubt it affected some businesses," he said. "If you were in Bristol, Tennessee, you were open. If you were in Bristol, Virginia, you were not open."

Whitehurst emphasized that Virginia has a $2.7 billion surplus in the state budget, almost exclusively federal money, which is

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being used for grants that will allow small businesses to recover. Despite the drastically different approaches in each state, business owners on both sides of the state line now find themselves facing the same problem – a lack of employees.

"I know a restaurant owner with employees who were doing better with the extra $600 a week than they were making pre-pandemic with him," Whithurst said. "He ultimately had to say, are you coming or not? Some said yes, and some say I can't walk away from more money until it dries up, and then I'll take my chances. That was probably a pretty good bet for them, because everybody is looking for more employees in the hospitality industry – everyone."

Tennessee Governor Bill Lee eliminated the enhanced federal unemployment starting July 1, but that didn't prove to be the silver bullet he hoped would bring Tennesseans flooding back into the workforce.

"In Tennessee, we were able to do a real litmus test by pulling that money away before the federal government was ready to give it up," Barrett said. "It helped a little bit, but it is nothing compared to the assumption of what the impact was going to be."

Even though there has been a recent spike of positive COVID cases, neither Whitehurst nor Barrett anticipate a return to lockdowns and stay-at-home orders.

"It's much more about doing everything possible to incentivize vaccination and to continue to support economic growth," Whitehurst said. "The economy is doing really well now, so it seems like we're figuring out how to live with this until we can finally get it tamed completely."

Interest Rates

The million-dollar question for everyone is when will the Federal Reserve start raising interest rates and by how much?

A lot of that will depend on the current recovery, both at home and abroad, as well as the wherewithal of the inflation that has reared its ugly head in recent months. Whitehurst said current expectations are that rates will start rising at the end of next year at the earliest, and he doesn't expect any drastic adjustments upward.

"The only thing that will change that will be if inflation really starts ramping up," he said. "Even if they start raising rates in a year and a half, what the board of governors said publically is their expectation is it would be a very methodical, modest process."

Barrett, Whitehurst, Harding and McClary all expect several factors will keep interest rates low for the foreseeable future.

First of all, rates have not risen substantially since the financial crisis of 2008, which is now 13 years in the past. The days of the 21.5 percent prime rate in 1980 are ancient history.

"I just think the paradigm has shifted," Harding said. "It's just a different ballgame. I can't see rates going up to 3 percent." In addition to the financial forces at play, political pressure is a constant presence that tends to keep rates low. That's enough to have Barrett betting against any drastic interest rate hikes, especially with the midterm elections coming into focus.

"No President wants to see rates go up under their watch," he said. "We have a new President now who operates a little differently, but just because the politics aren't on Twitter doesn't mean they're not the same."

Inside the Beltway

Politics certainly have a tangible effect on business – banking included – and never so much as when a single party has control of both houses of Congress and the White House.

Whitehurst said the two occasions in the last 12 years when a single party has had full control in Washington offer a good illustration of the sweeping actions that can take place under those circumstances. The Affordable Care Act and the Dodd-Frank Act were both passed with the Democrats in control of Congress and the White House from 2009 through 2011, and the Tax Cuts and Jobs Act of 2017 passed with Republicans in control of Congress and the White House.

"So there are multiple examples of that, and as voters, we tend to correct that at the midterm," Whitehurst said. "Split control of government is sort of a natural check and balance of going too far in either direction from my perspective."

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Of course, the last presidential election put the Democrats in control of the executive and legislative branches once again, which has brought discussion of sweeping legislative action to the forefront once again. This time, a bill introduced by Senator Elizabeth Warren designed to crack down on tax cheats by requiring banks to provide information about customer transaction activity to the IRS has set off alarm bells in banking circles.

Barrett noted the legislation will only undercut a long-standing goal Democrats have had to coax unbanked Americans into the banking system. "Reports are there is as much as 10 percent of the population without a checking or savings account," he said. "These are largely people that don't trust the government, and they aren't going to trust the government if they know the government knows every transaction going in and out of their account."

When legislation like this is being debated, Whitehurst said the lobbying efforts of the TBA and VBA kick into overdrive.

"There are a lot of young staffers up on Capitol Hill that maybe think idealistically 'Wow, this is an easy way to pick up all this revenue as an offset for infrastructure.' So we have to do an awful lot of educating."

Credit Unions

The battle lines between banks and credit unions have been drawn for some time, but Barrett said a recent trend is of particular concern to bankers. "We just crossed the threshold of 100 banks being acquired by credit unions," he said.

The first such purchase in the state of Tennessee occurred this past summer in Memphis where Orion Federal Credit Union purchased Financial Federal Bank in an all-cash deal. Given the tax-exempt status afforded to credit unions, Barrett said the tax implications of this particular transaction have caught the attention of lawmakers on the state level in Tennessee.

"They went to Memphis, acquired a $750 million bank, a bank that paid closing in on $2 million a year in state, local and federal taxes," he said. "That's just wiped. That's just gone. The city of Memphis isn't ready to throw away their share of $2 million a year."

Whether such transactions should be barred is a question that is starting to be posed in Tennessee, Virginia and across the country, and Barrett expects the ensuing conversation will continue for quite some time. Whitehurst said concerns about the tax inversion that takes place when a tax-exempt organization buys a taxable organization are real, but he doesn't sense much urgency yet among lawmakers.

"It really fails the policy test," he said. "As an industry, we're in this thing for the long-term."

Leton Harding, chairman, Virginia Bankers Association

- President and CEO of Powell Valley National Bank
- Serving as VBA Chairman in 2021-22
- Harding worked at the VBA from 1986 to 1993

Allen McClary, chairman, Tennessee Bankers Association

- 37 years at UBank in Jellico
- President and CEO for the past 27 years
- Presides over a 103-year-old community bank

The New Financial Frontier

Harding has worked in the banking industry during six different decades. So as he scans the horizon at the wide array of financial technology and cryptocurrencies that threaten to undermine traditional financial service methods, his feathers aren't easily ruffled.

"It's always kind of a natural evolution," he said of banks adapting to new technology. "It's very challenging, but I have a great confidence in our industry to tap into that the way we did ATMs and drive-up banking.

When it comes to Bitcoin and other cryptocurrency, Harding waxed philosophical about Tulip Mania, which occurred during the Dutch Golden Age in the winter of 1636-37. Harding wasn't around for that one, but history taught him the value of anything can hit obscene highs as tulip bulbs did that winter before prices crashed in February of 1637.

Whitehurst said he knows of a bank in Northern Virginia that is allowing customers to swap back and forth between U.S. Dollars and Bitcoin, but isn't sure cryptocurrencies have any tangible underpinning.

"To me, Bitcoin is sort of the same thing as if I owned stock in General Motors, and General Motors didn't actually make cars or actually do anything," Whitehurst said. "So what do I own stock in?

"I think there's still a whole lot of regulatory testing to be done before cryptocurrencies would be regarded anywhere close to equal to the dollar."

As far as all the banking apps that are all the rage in the fintech sector, Whitehurst isn't worried as long as the payments continue to primarily move through the banking system, which he believes will be the case.

"The value of a regulated industry, the value of a highly capitalized industry, the value of the customer relationship, I think all of those things have stood the test of time," he said. BJ