From the Chapter President

Dear RMA New England Chapter Members,

Welcome to our Fall 2020 RMANE E-Newsletter! I was honored to be elected as the New England Chapter President beginning September 1. I am grateful for the support and guidance I have received from our Past President's Council and Board of Directors as I assumed my new role.

The banking industry is operating in very uncertain times during this pandemic. We are keenly aware of the needs of our stakeholders, and the safety of our families, colleagues, and clients. Our organization has been working to pivot to offer support, information, and virtual training at both the national level and throughout the chapter system.

The New England Chapter has embarked on an ambitious programming calendar to keep our membership informed and updated on latest trends in the industry and overall economy. We have held a series of Chief Credit Officer panels. We have hosted two webinars on the impact of COVID-19 on the economy and the real estate markets, featuring the Head of Commercial Real Estate Economics for Moody's Analytics.

We are pleased to announce our new Lunch and Learn program series, which will provide RMA chapter members the ability to convene monthly for panels featuring experts in Asset-Based Lending, regulatory issues, Bank CEO Fireside Chats and more.

We encourage you to attend our events, and to share your thoughts and ideas with your fellow bankers. If there are topics of particular interest to you, please let us know so that we can tailor a program for you.

Inside these pages you will meet our newest board member, Greg Gould. You will also find information on our upcoming events, with registration links. You will find a series of articles on industry news. This e-newsletter will be distributed quarterly so stay tuned for our future versions.

My fellow chapter board members and I understand that this organization exists to serve its members. If you have questions for us, or ideas for future programs, please do not hesitate to reach out to me directly. Thank you for your support of RMA – we look forward to "seeing" you at our virtual programs.

Sincerely,
John Pratt
2021 RMA New England Chapter President
jpratt@lowellfive.com

Upcoming Chapter Events

RMA New England Chapter Zoom Webinar

The Election And What It Means For The Economy In Covid Times

Thursday, November 19
12:00-1:30 p.m.
via Zoom

There is No Cost for RMA Members to attend

Victor Calanog, Head of Commercial Real Estate Economics for Moody's Analytics will lead the discussion.

While the covid-19 crisis has been impacting the economy in many ways, how will the presidential election results affect the economy now and for the next 4 years? Is it a better or worse result for the economy vs. The alternative? How will it affect the global, national and local economies? What markets will be most impacted?

Victor Calanog is Head of Commercial Real Estate Economics for Moody's Analytics. Prior to the acquisition by Moody's Analytics in October 2018, he served as Chief Economist & Senior Vice President of REIS, leading a team of economists and analysts to build, maintain, and customize the firm's market forecasting, valuation, and real estate portfolio analytics services.

Dr Calanog's research has received awards and fellowship support from several institutions, including the Ford Foundation, the Russell Sage Foundation and the Penn Lauder Center for International Business Research.

Register in advance for this webinar:
https://rmahq.zoom.us/webinar/register/WN_jlgKe_9MTp6giJ8tEgdpDg

After registering, you will receive a confirmation email containing information about joining the webinar.

Women's Affinity Group Zoom Webinar

Asset-Based Lending Panel

Thursday, December 3
12:00 – 1:30 p.m.
via Zoom

Free for RMA members
Questions for panelists welcome within the Zoom chat

This RMA Women's Affinity Group webinar will address all aspects of Asset-Based Lending. The panel will include an ABL relationship manager, a credit officer, a workout officer, as well as a field auditor.

Panelsts:

Jessica Melching, Senior Vice President, Senior Commercial Credit Officer, Rockland Trust Company

Yvonne Kizner, Senior Vice President, Asset Based Lending, Cambridge Savings

Kate Brunelle, VP, Team Leader, Workout Dept., TD Bank

Caitlin Martell, Assistant VP, Asset Based Lending, BDC Capital

Register in advance for this webinar:
https://rmahq.zoom.us/webinar/register/WN_BYRjHOvZR6adjtaSLMu_Hg

After registering, you will receive a confirmation email containing information about joining the webinar.

Our chapter presents opportunities for individuals to get involved. Chapters rely on the talents of volunteers to stage many of their programs, conduct membership development efforts, and promote the ideals of the Association. To find out more about how you can get involved in our chapter, contact:
Julie Conroy, Julie@rmanewengland.org.

Meet Our New Board Member

Gregory Gould is Vice President, Government Guaranteed Lending (SBA) at Webster Bank. He oversees Small Business Administration lending throughout the bank working with lenders, underwriters and partners to facilitate eligibility, structure and creditworthiness for potential SBA loans. He has more than 20 years experience in small business lending and development, including serving as a Lender Relations Specialist with the SBA in its Rhode Island office before joining Webster as an SBA Relationship Manager in 2015.

Greg earned both his Bachelor of Science in Marketing and his MBA from the University of Rhode Island. He serves as the bank's spokesperson and oversees a team of people throughout the bank's footprint who support small business lending. He has recently been interviewed on WPRI-TV's 'The Rhode Show,' in the Hartford Business Journal and Providence Business News. He also has been quoted in the Wall Street Journal and Inc. Magazine. He received the Women in Business Advocate Award from the SBA in 2004.

Greg serves on the Boards of RMA New England (Risk Management Association) and the Central RI Chamber of Commerce, as well as being on United Way of RI's Advisory Committee. Greg is a native Rhode Islander, but his professional career has taken him to Boston and Maine before returning to his home state.

2020–2021 Chapter Officers

President:
John Pratt, Lowell Five Cent Savings Bank

Vice President:
Bridget Long, Boston Private Bank

Treasurer:
David O'Brien, Rockland Trust

Board of Directors:
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Richard Swasey, Northeastern University
Marilyn Tressel, Boston Private Bank

Chapter Administrator:
Julie Conroy

SBA PPP: Income Tax Issues

Hannah Fischer Frey
Jesse D. Sitz

We get a lot of questions regarding taxable obligations of PPP loans. This article spells it out pretty well: https://www.bairdholm.com/blog/sba-ppp-income-tax-issues/

The Federal income tax consequences related to Paycheck Protection Program ("PPP") loans guaranteed by the Small Business Administration ("SBA") continue to be an important, yet somewhat uncertain, consideration for all borrowers. Under regular Federal income tax principles, the forgiveness of a loan generally results in a business realizing cancellation of indebtedness income; however, the CARES Act expressly provides that any income realized as a result of forgiveness of a PPP loan is excluded from the business' income.   {Nonetheless, the current IRS position leads to a result that, for economic purposes, results in a result similar to that of debt discharge income.}

In May, the Internal Revenue Service issued Notice 2020-32, which ruled that while forgiven PPP amounts will not be includible in income, corresponding business expenses paid with PPP funds that are forgiven will not be deductible. Our May 4, 2020 article summarizes Notice 2020-32 in more detail. While certain members of Congress have indicated a desire to reverse the position of the IRS, until such legislation is passed, borrowers should consider doing income tax planning now.

Once a borrower submits its Loan Forgiveness Application to its lender, the lender has 60 days to review and issue a decision to the SBA. After submission by the lender to the SBA, the SBA has 90 days to review the Application and remit the forgiveness amount to the lender. With these timelines in mind, many calendar-year taxpayer borrowers may not receive a determination of forgiveness prior to the end of the year.
Notice 2020-32 does not allow a borrower to take deductions for 2020, even if that borrower has not yet had its PPP loan forgiven. This creates a clear mismatch of income and deductions, but current law does not allow a different treatment. Depending on the tax status of the borrower, the timing of forgiveness and the related lack of deductions will have the following implications:

- Partnership: For entities that are taxed as partnerships, both income and deductions will flow through to the partners. Even if income is stable as compared to prior years, the borrower partnership is likely to have decreased deductions due to the disallowance of deductions for eligible expenses such as payroll costs, interest on covered mortgage obligations, payment on covered rent obligation, or covered utility payments, to the extent paid using PPP funds. Because partners in a partnership are taxed on their phantom income (i.e., regardless of whether or not such income is distributed), partners should consider planning for an increased income tax liability or adjusting their annual distribution to account for the difference.

- S Corporation: Similar to a partnership, the shareholders of an S corporation will likewise realize a decreased amount of deductions and thus an increased income tax liability.

- C Corporation: C corporations may realize an increased tax liability at the entity level. While this will not directly affect shareholders, the increased tax bill for the corporation may indirectly affect the amount of money available for distribution.

These timing issues and related implications should be reviewed carefully. When analyzing eligibility, compliance, or other issues related to the PPP loans, both lenders and borrowers should ensure they have consulted the proper sources. If you have any questions regarding the SBA PPP loans, or other aspects of the CARES Act, please contact a Baird Holm LLP attorney.

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Four Pandemic Tech Trends That Will Permanently Alter Banking

By Bill Streeter, Editor at The Financial Brand

How will the COVID Pandemic reshape the banking industry? Here is a great article about emerging trends: https://thefinancialbrand.com/103267/tech-trends-that-will-permanently-alter-banking-ai-cx-personalization-innovation/

In the rush to accelerate digital banking capabilities, banks and credit unions need to think beyond the near-term. Financial institutions must look for new ways to improve CX by giving consumers more control, increasing collaboration between humans and AI, and baking innovation into their DNA.

Crisis spawns innovation and the COVID-19 outbreak is now seen as having been a huge force for innovation as governments and institutions of all descriptions had to adapt to rapidly changing circumstances.

In banking, the pandemic's sweeping impact has shaken up many fundamental assumptions and has changed the behaviors of employees, customers and other stakeholders, Accenture states.

In its Banking Technology Vision 2020 report, the consulting firm observes that even though the pandemic caused changes to occur in months that banks and credit unions expected to take years, many of the changes have been improvised and rushed by circumstances. Even so, these adjustments, including contactless payments, the shift away from branch transactions, digitized lending, and working from home will "be sticky well beyond the pandemic," Accenture predicts. The challenge for financial institutions of all sizes is to think long-term as well as continuing to meet immediate needs for change.

The pandemic in many ways was an accelerant, not the originator, of massive shifts in consumer behavior and expectations. It forcefully surfaced such pain points as disjointed customer experiences and lack of

personalization at a time when such capability simply became expected. As the report points out, many of the reasons financial institutions "might play it safe — failing to see demand for change, or being risk averse — are irrelevant in a world going through overwhelming transformation in such a short time."
Accenture outlines four broad technology-driven trends reshaping the future of banking. These are:

1. Increased consumer control over their banking experience.
2. The potential for human/AI collaboration.
3. Improvements in post-COVID customer experience.
4. The need for financial institutions to build an "Innovation DNA."

Key points of each trend are summarized here, amplified by comments from Alan McIntyre, Accenture's Senior Managing Director – Banking, in response to questions from **The Financial Brand**. The report is based on a survey of 670 banking executives worldwide.

Trend 1: The Need to View and Engage with Customers as Partners

The effectiveness and impact of personalization depends greatly on how it is accomplished.

"Black-box personalization," says Accenture, is common in the banking industry. But it leaves consumers feeling "out of the loop and out of control" over what is offered to them in terms of products and messaging — just the opposite of what personalization should be. Instead, personalization needs to encompass customer participation in some fashion — what Accenture calls "customer agency."

Overall, a large majority of banking executives recognize the need for improved personalization.

86% of the banking executives surveyed said user input or influence on the personalization of the user experience is important.

79% agreed there is a need to dramatically reengineer the experiences that bring technology and people together in a more human-centric manner.

84% agreed that to compete in a post-digital world, banks need to elevate their relationships with customers as partners.

"Consumers often find themselves confused by bank products and have difficulty understanding whether they are fit for their needs and how the fees and interest rates work," McIntyre states. Two things are needed for banks and credit unions to get personalization right, he asserts:

1. **Use consumers' own data to help them make better and more informed choices.** In this way, institutions

can alert customers to potential fees or help them make the most of their spending, McIntyre states. For example: Are they leaving too much money in their checking accounts and should they open an instant access savings account? Should they be using an installment loan rather than a credit card to borrow?

2. **Allow consumers to customize their own products within parameters set by a financial institution.** For example, Barclays has allowed customers to change parameters on their credit card to better fit their needs. Or, for a CD, the customer could modify the term and early withdrawal penalty to have the CD meet their unique needs and profile.

"There is clearly a desire among consumers to feel their bank is on their side of the table and that there is a shared interest in success," McIntyre believes. A true digital community, he adds, not only allows customers to learn from each other and share but would also have banks and credit unions being transparent about their own economics and interests.

That kind of transparency may be difficult for institutions to swallow. McIntyre acknowledges there would be a tradeoff between short-term profit and long-run customer value. "True personalization often means cannibalization of existing revenue streams," McIntyre states. "Banks will need to educate their shareholders — the way big tech has — that revenue follows customer loyalty, share of wallet and increased retention."

Trend 2: AI as a Banking Disruptor

By now, many financial institutions use artificial intelligence tools in a variety of applications. This includes credit risk modelling, chatbots, fraud detection, and extraction of CX insights from data. Accenture calls all that merely table stakes and says that banking leaders are thinking about how they can use AI as an interactive collaboration tool.

"The banks that are unlocking the full value of AI look at it differently," McIntyre states, "not only as a way to transform how businesses do their work, but also what their people actually do as well as how their business operates, delivers its services and interacts with customers. They are embracing AI as an agent of change across the organization."

Based on the results of the Accenture survey, there is some work to do here.

17%
of banking executives reported that AI is woven into the fabric of their organization.

29%
said they were already adopting — or planning to adopt within a year — AI-based systems that are simultaneously collaborative, interactive and explainable.

In a complex process like mortgage underwriting, for example, the ability to use AI to interpret and highlight issues in documents can reduce the cost by thousands of dollars and speed the process. Trained loan officers would only look at cases that have already been flagged, McIntyre explains, rather than have to review every document at the same level of detail.

In other cases, the consultant says, AI can approach problems the same way as successful fintech disrupters: "Its judgment isn't clouded by decades of previous experience or inherent biases, and it hasn't yet learned what not to try." This AI capability requires humans to direct and refine what the AI comes up with, McIntyre states. All this is part of the growing field of "explainable AI," according to Accenture, in which the output of previously "black-box" systems is de-mystified.

"Making AI explainable turns a human-AI interaction into a relationship," says McIntyre. For example, if an applicant is denied a loan using AI, the system explains the reasons for the denial and offers the smallest number of changes the applicant would need to make to have the application approved, such as having more cash on hand or increasing annual income.

Trend 3: Necessity of Making Frequent CX Tweaks

During an analyst presentation, a Bank of America executive disclosed the astonishing fact that the bank had made more than 800 enhancements to its mobile banking app over the course of just eight months since the start of 2020.

While that figure may be atypical, the need for frequent and rapid updates to both digital and in-person banking products was acknowledged by banking executives in the Accenture Tech Vision survey.

77%
of banking executives said their institution's connected products and services will have more, or significantly more, updates over the next three years.

71%
agreed that customers don't mind, or even welcome, software updates to their institution's connected products and services.

"In the past, people may have been upset by banks repurposing smart devices, changing branch or contact center experiences, or rapidly introducing new features and functionality to apps and websites," the report states. "Today they are more understanding." The pandemic in fact has brought banks and credit unions a reprieve, "granting them leeway and creative liberty to use devices, apps and other digital channels to their full extent."

"We believe that banks should not allow 'the perfect' to be the enemy of 'the good' in rolling out their omnichannel strategies," McIntyre tells **The Financial Brand**. Instead, they should focus on delivering the

engagements and experiences that help create connected experiences that “span different touch points in the customer journey.” Having a self-learning feedback loop that understands why customers couldn’t complete a task or a purchase online and then improving the process in iterative ways is critical,” McIntyre adds.
The report also points out that as banks and credit unions improve their mobile apps and other customer interfaces they should also leverage these investments toward improving consumers’ financial health and well being.

Leading financial institutions are upgrading their digital capabilities to establish more collaborative, trust-based relationships, McIntyre notes.

Trend 4: Creating Innovation DNA

Accenture doesn’t mince words about the need for innovation in traditional financial institutions post-COVID:

“Yesterday’s expectations for innovation are out the window. Even though the stakes for innovation in banking were rising even before the coronavirus arrived, now a true culture of innovation is a matter of survival through, and beyond, the pandemic.”

Creating a unique “innovation DNA” has two components, the report states:

1. **Maturing digital technology**, including cloud-based applications that enable a growing range of applications. As the report states: Leading financial institutions are “decoupling applications from legacy infrastructure and moving to the cloud.” This allows APIs, microservices, data lakes and more to be run in parallel with legacy systems. Goldman Sachs, for instance, has built a platform called Marquee, which the company uses to decouple data from its respective data silos, Accenture states.

2. **Emerging “DARQ” technologies.** These are: Distributed ledger, AI, extended Reality, and Quantum computing. McIntyre acknowledges that it’s early days for most of the DARQ technologies other than AI, which, as noted above, is much farther along in banking. Yet the others are all already in use. 2019 Accenture research pegged the level of bank use of a slightly different list of technologies:

**Which of these new and emerging technologies
is your bank investing in over the course of 2020?**
AI 60%
IoT and sensors 53%
Quantum computing 37%
Distributed ledgers 31%

McIntyre insists that traditional financial institutions “can no longer hide behind regulation as a reason for holding back on innovation.” Regulators in most markets, he says, have become more flexible in enabling banks to take advantage of the latest tools and technologies, and in some cases are driving — rather than inhibiting — innovation.

That said, fintechs and other specialized players can often innovate at a faster pace because they are less inhibited by legacy technology, according to McIntyre. “It often makes sense for large incumbents to partner with fintechs to upgrade their core offerings with innovative products.”

For midsize and community institutions, McIntyre’s advice is to choose their vendors well.

“In the past, many banks and credit unions have bought bundles of products that have locked them into complex multi-year contracts and limited their ability to bring in third parties,” says McIntyre. In the future, he sees smaller institutions taking further advantage of API-driven products and services to build their own tech stacks so that they can have more control over, and align with, their business priorities.