

Directions: Please limit the written response to 6 pages of text, plus an executive summary of up to 1 page. References and up to 6 pages of figures and tables do not count against this limit. All figures and tables should be self-contained, referenced in the text, and included at the end of the document. Text should be single spaced in Times New Roman font, 12 pt, with 1” margins on all sides of the page.

Question: What do you view as the most significant impacts of the COVID-19 pandemic on the banking sector, and what lessons can be learned and implemented by financial regulators?

The COVID-19 pandemic has affected many areas of the U.S. economy, including unemployment, economic (fiscal and monetary) policies, consumer demand, physical work locations, and housing prices. The pandemic has also had many significant implications for the banking sector, including the creation of new loan programs, shifts in consumer preferences, changes in depositor behavior, and changes in loan demand and supply. As society recovers from the pandemic, financial regulators will absorb the lessons learned from the pandemic and prepare to carry out their missions in the post-pandemic “new normal” of the financial sector.

Your goal is to determine which pandemic-related issues in the U.S. banking sector are of greatest significance and then use your analysis to motivate specific policy recommendations. In the interest of brevity, focus on *up to three* issues that your team deems most important and motivate your choice. The quality of your analysis is more important than the quantity of issues that you discuss. There is no penalty for pursuing fewer than three issues. The next section gives examples of areas where experts observe some changes in the banking sector during the pandemic or believe that changes will occur in the future because of the pandemic. You may use any of these in your answer or put forth your own topics.

The analysis of your chosen topics should rely as much as possible on empirical evidence (e.g., graphical, statistical, and econometric analysis), but other types of evidence (e.g., interviews with industry experts) can be used as required.

Described below are available data sources that could help illustrate your arguments, but you may use other publicly available data as desired.

- The Federal Deposit Insurance Corporation (FDIC) releases (1) quarterly data on the business behavior of community, regional, and national banks through Call Reports, which are available from the Federal Financial Institutions Examination Council (FFIEC), and (2) annual data on the location of physical bank offices through the Summary of Deposits.
- The U.S. Census Bureau (Census) produces a bi-weekly online Household Pulse Survey studying the social and economic impacts of the coronavirus on U.S. households.

- The U.S. Small Business Administration (SBA) provides data related to the Paycheck Protection Program, a loan program created in response to the pandemic and targeted to small businesses.
- Johns Hopkins University (JHU) administers the COVID-19 Data Repository, which collects data on COVID-19 testing, cases, deaths, vaccinations, and government response policies at various levels of geography.

Part I: Conceptual Framework

Develop a concise conceptual framework that discusses potential ways in which the pandemic has affected the banking sector. Use this framework to motivate hypotheses to illustrate with data, as described in the following sections. You can focus on economic, demographic, and socioeconomic outcomes, including employment, personal income, access to credit, or other important measures.

The following are some examples of issues that your conceptual framework could address.

- How has consumer confidence changed during the pandemic, and how have these changes affected the banking sector?
- How have consumer payment methods and banking preferences changed as a result of the pandemic, and how may these changes affect banks?
- How has the pandemic affected bank deposits, and what do these changes mean for banks, borrowers, and the FDIC?
- How has demand for and access to business loans changed as a result of the pandemic?
- How have changes in housing prices compared to those during the previous financial crisis, and what are the implications for mortgage markets?
- What has been the impact of foreclosure and eviction moratoria on lenders?
- How have financial assistance payments to households (e.g., direct payments and unemployment enhancements) affected banks?
- How has the pandemic affected banks' sources of income (e.g., interest vs. non-interest income)?

Part II: Empirical Analysis

Using the data available through the FFIEC, FDIC, Census, SBA, JHU, and/or other publicly available sources, describe changes over time or differences across groups (banks, geographic areas) in the outcome measures proposed in the previous section. In your analysis, it may be helpful to compare banks that are more likely to be affected by the issues you study to banks that are less likely to be affected by those issues. Depending on the structure of your analysis, you may choose to include all geographic areas and/or focus on specific areas where you may be more familiar with local regulations and the economic environment.

Part III: Interpreting the Empirical Findings

Describe and discuss how the patterns you have identified support your hypotheses. It may be helpful to address the following questions, though you are encouraged to develop and address questions that relate to your specific approach.

- For the measures you examined, what differences exist between banks?
- Do these differences match up with the predictions from your conceptual framework?
- Are there geographic, industry, or bank characteristics that appear to amplify or weaken the effects of the pandemic-induced changes on banks?

It is important to assess your findings critically and understand the limitations of your analysis. In this regard, it may be helpful to address the following questions.

- Why might your findings be related to the COVID-19 pandemic?
- Why might they not be related to the pandemic, i.e., what other factors could explain the data patterns you have discovered?
- What factors should be considered when determining if a data pattern is related to the pandemic?

Part IV: Policy Implications

The FDIC, working with other banking regulators, examines and supervises thousands of banks for safety and soundness and compliance with consumer protection laws. The FDIC also reviews and approves applications for deposit insurance, an important step in opening a new bank. Include in your write-up a consideration of the role that the FDIC has in regulating the banking sector.

- Why are the changes that you have examined of particular interest for bank regulators such as the FDIC?
- Should any of the changes affecting the banking sector that you have identified be met with particular responses from FDIC? If yes, explain your proposed course(s) of action. If not, explain why inaction is the best response.
- If the FDIC implemented your policy recommendations, what might the impact be on the banking sector? On the economy more broadly?