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Issue 7, 2021

Welcome!

Welcome to our seventh issue of *Promissory Notes* -- our e-newsletter focused on banking and finance insights.

Are we covering the topics you find interesting? Do you have questions about specific issues? [Let us know](#) and we will make sure we pay close attention to those areas of interest.

Thank you for reading.

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and

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"Money often costs too much." --- Ralph Waldo Emerson

As Banks Push AI, Worry About Worsening Inequality Follows

"AI and machine learning might amplify patterns of historical discrimination and financial exclusion through reliance on flawed data or mistakes in development."

Why this is important: Earlier this year, the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, Consumer Financial Protection Bureau and National Credit Union Administration jointly issued a Request for Information and Comment on financial institutions' use of artificial intelligence, including machine learning. The comment period has now closed, and the agencies are beginning to digest the commentary they received, which included commentary on the risk that use of machine learning could exacerbate patterns of historical discrimination and financial exclusion through reliance on flawed data, embedded with implicit biases. The American Bankers Association and Bank Policy Institute v have taken the position that the risks can be managed through existing laws and regulations and that new regulations are not necessary. --- [Brienne T. Marco](#)

Supreme Court Invalidates CDC Eviction Moratorium

"The policy had been allowed to continue by a 5-4 decision in the Supreme Court early in July, although one justice voting to permit it said he agreed with the lower court ruling overturning the moratorium but allowed it to continue since it would soon expire."

Why this is important: Who did not see this coming? In July, SCOTUS ("Supreme Court of the United States") allowed the landlord eviction moratorium to continue for a limited time, presumably to provide the President time to end it in an organized fashion. One of the Justices voting with the majority stated that he voted that way only because it would expire soon anyway. Instead, with the President's encouragement, the Director of Centers for Disease Control and Prevention, a mere subpart of the Department of Health and Human Services, extended the moratorium. In effect, a relatively minor official extended activity that (i) was at best loosely related to the department involved (over "concerns" that evictions would result in higher incidences of COVID-19); (ii) was at least questionable under the U.S. Constitution to begin with; and (iii) threatened small landlords, many retired persons on a fixed income, with financial ruin, themselves. The fact that three Justices voted to allow the CDC Director to do this is, well, horrifying. This article explains the SCOTUS decision. See also, this [Wall Street Journal opinion piece](#). --- [Hugh B. Wellons](#)

Why the Fed is About to Stop the Party on Wall Street (and What It Means for You)

"The Federal Reserve will soon wind down its pandemic-era stimulus measures, a process Wall Street nerds call 'tapering.'"

Why this is important: The Federal Reserve took two actions to ameliorate the effects of COVID-19 on the economy, very similar to the "quantitative easing" it began after the crash of 2008-2009. Those are maintaining low interest rates and buying bonds. The Fed now is hinting at backing off of those actions. It admits that the timing may be premature, since short-term risk of further inflation is high and employment still is low. This "threat" of easing the "easing," however, is making markets nervous. If you enjoy "Freakonomics," you may enjoy this article. --- [Hugh B. Wellons](#)

Commercial Loans Hit Record Levels for Community Banks

"Recent data shows a dramatic increase in commercial real estate loans in the first half of 2021."

Why this is important: As the U.S. emerged from the COVID-19 pandemic in the first half of 2021, community banks made a record amount of commercial real estate loans. The commercial real estate ("CRE") data from MountainSeed shows a 39 percent increase in CRE loans compared to the same period in 2020 and a 30 percent increase over 2019. Lenders also appear confident that the tourism and travel sector will see substantial increases in lending opportunities in 2021 after that sector was severely affected by the pandemic. Conversely, retail and office loan originations are projected to be slightly down year-over-year because lenders remain hesitant with that sector as employees continue to work from home and online shopping impacts future retail leases. Nonetheless, the increases in CRE lending show that community banks and credit unions are getting more optimistic in a post-COVID environment. --- [Bryce J. Hunter](#)

'Unprecedented' Fraud Penetrated Rollout of COVID-19 Small Business Loans, Watchdog Warns

"The SBA inspector general says 'lowered guardrails' left the program vulnerable."

Why this is important: We said so much about this already, but it is a developing story. Surprise, there was a lot of fraud in PPP loans! Who would have thunk?! The SBA explains how this happened, in some detail, proposing a timeline of how the frauds unfolded. This also explores a concern that the

"unprecedented" amount of fraud may dissuade the government from engaging in a similar "giveaway" in the future. No, I'm not kidding, it really says that! --- [Hugh B. Wellons](#)

Optimism Turns Around for Black Small-Business Owners in Bank of America Survey

"About 95% of Black business owners reported the pandemic added stress to normal business operations, but about 84% said they expect revenue to increase over the next 12 months."

Why this is important: Many Black business owners experience some optimism, but also changes in managing their business, as we slowly, fitfully, exit the pandemic. This article explores that. Not unexpectedly, similar optimism and changes in approach would be reported by most small business owners in general. Access to capital will be important. This article examines a survey of businesses coming back to "normal," but most likely a "new normal." --- [Hugh B. Wellons](#)



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