

The Meeting of the Advisory Committee on Community Banking

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

March 28, 2019 – 9:06 A.M.

The meeting of the FDIC Advisory Committee on Community Banking (“Committee”) was called to order by Jelena McWilliams, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation (“FDIC”).

The members of the Committee present at the meeting were: Dick J. Beshear, Chairman, President, and Chief Executive Officer (“CEO”), First Security Bank and Trust Company, Oklahoma City, Oklahoma; Asif Dakri, Vice Chairman and CEO, Wallis State Bank, Houston, Texas; Fred DeBiasi, President and CEO, American Savings Bank, Middletown, Ohio; Christopher Donnelly, President and CEO, Bank of the Prairie, Olathe, Kansas; James J. Edwards, Jr., CEO, United Bank, Zebulon, Georgia; Keith Epstein, Executive Vice President (“EVP”) and CEO, Roxboro Savings Bank, SSB, Roxboro, North Carolina; David J. Hanrahan, Sr.; Danny J. Kelly, President and CEO, The Hometown Bank of Alabama, Oneonta, Alabama; Kenneth Kelly, Chairman and CEO, First Independence Bank, Detroit, Michigan; Bruce Kimbell, President and CEO, First Community Bank of the Heartland, Clinton, Kentucky; Thomas Leavitt, President and CEO, Northfield Savings Bank, Northfield, Vermont; Lori Maley, President and CEO, Bank of Bird-in-Hand, Bird-in-Hand, Pennsylvania; Tiffany Baer Paine, President and CEO, Security Bank USA, Bemidji, Minnesota; Alan Shettlesworth, President and Chief Operating Officer (“COO”), Main Bank, Albuquerque, New Mexico; Louise Walker, President and CEO, First Northern Bank of Dixon, Dixon, California; and Len Williams, CEO, People’s Intermountain Bank, American Fork, Utah.

Cathy Stuchlik, Chairwoman and President, Clackamas County Bank, Sandy, Oregon, and Joseph W. Turner, President and CEO, Great Southern Bank, Springfield, Missouri, were absent from the meeting.

Martin J. Gruenberg, Director, FDIC Board of Directors, was present at the meeting.

Corporation staff who attended the meeting included: Lisa D. Arquette, Rebecca A. Berryman, Valerie Best, Ryan Billingsley, Luke H. Brown, Leonard N. Chanin, Carolyn D.

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Curran, Timothy J. Davin, Chad R. Davis, Christine M. Davis, Doreen R. Eberley, Keith S. Ernst, Shannon N. Greco, Patricia S. Gunneau, Todd L. Hendrickson, Martin D. Henning, Travis J. Hill, Nicholas S. Kazmerski, Alicia Lloro, M. Anthony Lowe, Christopher Lucas, Rebecca J. McAweeney, Brandon Milhorn, Rae-Ann Miller, Shayna Olesiuk, Mark E. Pearce, Lisa K. Roy, Philip A. Shively, Robert F. Storch, Edward D. Thomas, Bryan E. Wampler, James C. Watkins, Jeffrey Weinstein, Angela A. Wu, and Katrice L. Yokley.

William A. Rowe, III, Deputy to the Director (Comptroller of the Currency) also attended the meeting.

Chairman McWilliams opened and presided at the meeting. She began by welcoming the members of the Committee who were attending their first meeting: Mr. Kimbell, Mr. Beshear, Mr. Epstein, Mr. Leavitt, Mr. DeBiasi, and Ms. Maley. The Chairman explained that members are added to the Committee with a goal of ensuring representation from community banks across the Country, from cities as well as rural areas.

The Chairman then introduced Mr. Chad R. Davis, Deputy to the Chairman for External Affairs and the Committee's Designated Federal Officer, who moderated the rest of the day's proceedings. Mr. Davis advised that the first item on the agenda was an update on FDIC efforts regarding de novo institutions. He introduced James C. Watkins, Senior Deputy Director, Division of Risk Management Supervision ("RMS") to deliver the presentation.

Mr. Watkins framed the presentation by stating he would provide an update regarding de novo metrics, describe deposit insurance application initiatives, and summarize feedback from two outreach efforts sponsored by the FDIC. With respect to metrics, Mr. Watkins advised that de novo activity had recently increased. Metrics can be found on the FDIC's Transparency & Accountability web page, he noted. The Transparency web page was created as a result of Chairman McWilliams' agency-wide "Trust through Transparency" initiative announced on October 13, 2018. The Transparency Initiative unites each business area across the FDIC behind the goals of being accessible, understandable, responsive, and accountable. A key feature of the initiative is the publication of performance metrics, including turnaround times for bank applications.

Aside from the Transparency web page, the FDIC announced several additional actions to promote a more transparent, streamlined, and accountable deposit application process, Mr. Watkins noted. For example, the FDIC re-published its timeframe guidelines for processing applications, notices, requests, and other filings submitted on behalf of existing and proposed institutions. (FIL-81-2018, Dec. 6, 2018.) The FDIC's goal is to act promptly on each filing, while allowing appropriate time for review and evaluation. By way of another example, the FDIC announced a voluntary process to allow prospective organizers the option to request FDIC review of a draft deposit insurance proposal prior to filing an official application. (FIL-82-2018, Dec. 6, 2018.) Mr. Watkins explained that the FDIC will review draft proposals in an effort to identify potential issues, provide preliminary feedback, and work with organizers on their submissions before submitting a formal application. The process is designed to provide the FDIC and organizing groups an opportunity to better understand and work through possible challenges in a collaborative manner before a formal application is filed, he noted. Although the

process is open to any organizing group, Mr. Watkins observed that the process will be particularly helpful to those proposals with unusual or complex aspects and for groups seeking technical assistance. The FDIC expects to provide organizers an update within 30 days of receiving a draft proposal and, for most proposals, to complete the review within 60 days. Turning to another example of recent initiatives to strengthen the application process, Mr. Watkins advised that the FDIC issued an update to its publication entitled *Applying for Deposit Insurance – A Handbook for Organizers of De Novo Institutions*. At the same time the FDIC finalized its *Deposit Insurance Applications Procedures Manual* and announced the creation of a “Designated Applications Mailbox” to provide an additional channel for interested parties to ask questions of designated applications specialists. (FIL-83-2018, Dec. 6, 2018.)

Next, Mr. Watkins discussed outreach efforts. He advised that the FDIC has pursued two important initiatives designed to obtain feedback from industry participants and other interested parties regarding the deposit insurance application process. First, the FDIC convened a series of roundtable discussions. Second, the FDIC issued a Request for Information (“RFI”). (FIL-80-2018, Dec. 6, 2018.) With respect to the roundtable discussions, Mr. Watkins advised that, beginning in December 2018 and through the first quarter of this year, roundtable discussions were held in each of the six regional offices as well as Washington, D.C. Over 100 individuals participated in the roundtables, including bankers, potential organizers, industry associations, and other interested parties. He reported that these events are structured around three primary points of interest: (1) Participants are asked to provide a “report out” of questions and concerns about the application process; (2) Discussion is encouraged with respect to specialty business models and concerns about the application process; and (3) Participants are encouraged to raise any other suggestions the FDIC could consider for improving the effectiveness, efficiency, and transparency of the application process. With respect to the RFI, Mr. Watkins noted that it posed 13 questions and sought feedback on all aspects of the application process. Some questions posed were particular to specific types of de novo applications while others concerned the overall application process. Ultimately, the RFI invited comment regarding any aspect of the application process that commenters believe could discourage applicants from initiating or completing the process.

Mr. Watkins advised that these outreach efforts generated a substantial number of comments and suggestions regarding the application process. One commenter suggested the FDIC consider modifying the requirement that applicants identify a specific physical location at the time the application is filed. Instead, allow organizers to identify a more general location. Mr. Watkins noted that there is often a cost associated with locking in a physical location, which impacts the overall cost of organizing an institution. Another comment involved the possibility of modifying the application process in order to lower the organizing cost or “burn rate.” Other suggestions concerned ways to enhance communication or share information at earlier stages. Other commenters requested clarification of capital requirements. Mr. Watkins explained that de novo banks must have 8 percent capital at the end of the third year of operation. Other comments (1) raised the possibility of delegating authority to approve applications to the regional level; (2) sought guidance regarding the FDIC’s interpretation of a “substantially complete” application; (3) asked what constituted a “change in business plan;” (4) encouraged regulators to take a fresh look at the requirements concerning stock options and stock compensation in general; (5) asked that forms be made more “user friendly” and automated; and

(6) encouraged the FDIC to re-visit risk-tolerance issues. Mr. Watkins indicated that each of the comments will be reviewed, recommendations developed, and action plans issued as appropriate. Mr. Watkins assured the Committee that the FDIC's goal is to make the deposit insurance application process transparent, streamlined, and accountable, and concluded his remarks.

The Committee members and staff then discussed the initiatives outlined by Mr. Watkins. In response to questions concerning the dollar-amount of capital among the de novo institutions recently approved, Mr. Watkins indicated there was a broad range of capital and reminded the Committee that the FDIC's expectation is for 8 percent capital after the first three years. Member Edwards commended the work the FDIC has done to encourage de novo formation. He further commented that anything the FDIC could do to provide clarification as to what constitutes a substantially complete application would be helpful. Mr. Watkins responded that organizers are encouraged to talk with the FDIC about the process, and that the FDIC is open to having pre-filing meetings so FDIC staff can help organizers navigate the process.

Member Maley commented that her bank was one of two de novo banks that opened in 2013 and that the order required \$16 to \$20 million in capital. She reported that her bank opened with \$17 million in capital and three years later they raised another \$12 million. She commented that de novo banks generally require a significant amount of capital. Member Kenneth Kelly thanked Mr. Watkins for the regional outreach efforts and asked whether there were additional plans for regional meetings. Mr. Watkins responded that the plan is to digest the information received from the roundtable meetings to date and then develop an action plan. Member Kenneth Kelly also asked whether the de novo activity was concentrated in particular areas of the country or broadly dispersed across the country. Mr. Watkins advised that almost every FDIC region has had de novo activity, with perhaps more activity in the San Francisco, Atlanta, and New York regions. He commented that the outreach discussions indicated, in some areas such as the Midwest, organizers and investors may be evaluating opportunities to acquire an existing bank instead of forming a new bank.

The Chairman commented that the FDIC is currently exploring the idea of holding meetings similar to the Advisory Committee on a smaller scale in the regional offices. Member Shettlesworth commented that his bank has received an inquiry from organizers asking for advice on starting a de novo bank. Mr. Watkins responded that each FDIC regional office has specialists who can help. Member Epstein commented that the lack of community banks is going to negatively impact local communities in the long term. He encouraged the FDIC to engage the state banking associations as they have a vested interest in de novo activity and may be able to assist. In response to questions concerning the types of institutions applying for deposit insurance – whether community bank or industrial loan company or specialty bank – Mr. Watkins noted that the FDIC is open to different types of business activity and that all proposals are evaluated against the statutory factors.

Mr. Davis then introduced the next agenda topic, "Community Bank Technical Assistance Efforts and Related Request for Information," presented by RMS Associate Director Lisa Roy.

Ms. Roy began by stating that the FDIC plans to issue a RFI next month relating to technical assistance efforts for banks. She explained that the purpose of the RFI is to seek public input on how to ensure technical assistance offerings are effective and valuable. Ms. Roy welcomed feedback and suggestions on the draft RFI. She explained that she would walk through the areas in which the FDIC provides technical assistance as well as some draft questions in the RFI.

Ms. Roy directed the Committee's attention to a slide deck which set forth seven areas in which the FDIC provides technical assistance. She began with the first area of technical assistance videos. She explained that the FDIC began issuing technical assistance videos in 2013. She noted that there are videos that specifically target bank directors and other videos targeted for bank officers and staff. Ms. Roy stated that one of the questions the RFI seeks feedback on is how institutions use the videos and if institutions could identify which videos are most helpful for directors and which are most helpful for staff. She reported that in December 2018, the FDIC issued an updated video on the Bank Secrecy Act using a new voice-over format. Ms. Roy stated that the FDIC moved to this format to reduce cost associated with producing the videos and also to be able to amend the videos more quickly. Ms. Roy noted that the draft RFI seeks feedback on the new video format. Ms. Roy also stated that the FDIC is interested in obtaining feedback on whether there might be additional videos the FDIC should consider issuing and whether any of the existing videos should be removed.

Ms. Roy next discussed the FDIC's Directors' Resource Center. The Directors' Resource Center on the FDIC website is organized by product type; videos are in one location, guidance in another, and rules and regulations in yet another. She explained that one of the initiatives is moving toward a more topic-based resource center. Ms. Roy then reviewed with the Committee the proposed topic-based format. She explained that the FDIC is seeking feedback on this topic-based organization. She noted that a sample topic-based webpage with information regarding the Bank Secrecy Act ("BSA") will be released around the same time as the RFI so the public can review the new format and provide comments.

Ms. Roy next discussed the FDIC's director or banker colleges. She explained these are offered in each of the regions on a varying schedule. She said each regional office determines the subject matter for that particular one-day event based on questions they have received and current topics of interest to bankers. Ms. Roy explained that there are several questions in the RFI regarding director or banker colleges. The questions in the draft RFI ask whether the individual has attended a one-day event in the last two years and if so, was it helpful; is the length sufficient to meet his/her needs; and are there topics that should be included in the banker/director colleges.

Ms. Roy then touched on webinars and teleconferences. She noted that the draft RFI inquires about whether they are useful, how they can be made more useful, and whether there are particular topics that should be the focus of future teleconferences or webinars. The draft RFI also seeks feedback on the manner in which the webinars and teleconferences are announced and whether there is sufficient notice of the events so bankers can plan to participate. Feedback is also requested concerning the effectiveness of the materials that are provided and ways to increase the effectiveness.

Ms. Roy next discussed the Community Bank Resource Kit. She explained that the Kit was originally created in April 2016. The draft RFI seeks information on the usefulness of the Kit. Ms. Roy then highlighted regional compliance newsletters. Each of the FDIC's six regions produces a quarterly compliance newsletter that is sent by email to all state nonmember banks. The newsletters provide information regarding FDIC initiatives, updates to guidance, common examination findings, and other topics. She explained the draft RFI also requests feedback on the newsletters.

Finally, Ms. Roy noted that the draft RFI includes some general questions about which of the FDIC's technical assistance offerings are most useful and what other methods of technical assistance the FDIC should consider. Ms. Roy then reviewed the timeline for the RFI. She noted that the FDIC hopes to issue the RFI next month for a 60-day comment period. Following analysis of the comments, the FDIC will then determine next steps in early fall of 2019. Ms. Roy then welcomed any questions or suggestions from the Committee.

Member Shettlesworth commented that, at his bank, the videos are being successfully used for directors' training. He said in his experience most of the videos are where they need to be, but some can be perhaps a little lengthy. So perhaps make them more concise.

Member Paine complimented Ms. Roy on her work and indicated that her bank utilizes the videos and found them to be great. She also commented that the ability to find the videos on the FDIC website can be challenging and suggested that we evaluate the search capabilities. She also commented that, with regard to articles, more concise articles are more helpful if at all possible. Member Edwards also commented that it would be helpful to clarify how to get to various items on the FDIC website and try to keep it to two or three clicks.

Chairman McWilliams commented that the FDIC is currently working on revamping the website and making it more user-friendly.

Mr. Davis introduced the panel for the next topic, "Use of Bank Filings Required Under the Bank Secrecy Act," as Jamal El-Hindi, Deputy Director, Financial Crimes Enforcement Network ("FinCEN"); Erik Kiefel, Senior Adviser for Strategy, Policy Division, FinCEN; and Laura Richardson, Chief of the Trade, Investment, and Fraud Section, Intelligence Division, FinCEN.

Mr. El-Hindi stated that BSA data plays a critical role in keeping the Country strong and financial systems secure. FinCEN and law enforcement officials value the information provided by community banks through BSA filings and recognize that community banks invest significant resources to comply with BSA requirements. He explained that when community banks report suspicious activity involving possible elder fraud, cybercrime, human trafficking, narcotics trafficking, or terrorism activities, the information provides important leads for law enforcement investigations. For example, BSA data aids ongoing investigations regarding bulk cash smuggling, gang activity, transnational organized crime, bribery, health care fraud, embezzlement, third-party money laundering, and tax evasion. The information gathered through BSA filings makes it harder for criminals to hide illicit proceeds in the financial system.

Mr. El-Hindi assured the Committee that BSA data is depended upon by law enforcement officials throughout the Country. FinCEN provides nearly 500 federal, state and local law enforcement and regulatory agencies with direct access to the FinCEN database of BSA records. Within these agencies, there are an estimated 11,000 active users of the data and 149 Suspicious-Activity-Report (“SAR”) review teams. The data is accessed through a system called “FinCEN Query” and, in the last five years, users have made more than ten million queries. Moreover, all Federal Bureau of Investigation (“FBI”) “subject names” are run against the database; over 21 percent of FBI investigations use the data; 60 percent of organized crime investigations rely on the data; and 20 percent of international terrorism cases rely on the data. With respect to SARs, they are screened through over 100 automated “business rules” to identify reports that merit further review. FinCEN’s terrorist-financing business rules alone generate over 1,000 matches each month, he reported, and these matches are disseminated to law enforcement and regulatory partners to help identify, track, and disrupt the activities of potential terrorists.

Mr. El-Hindi then discussed two information-sharing programs known as “Section 314(a)” and “Section 314(b).” Title III of the USA PATRIOT Act of 2001 (P.L. 107-56), amended the BSA. Section 314(a) of the USA PATRIOT Act requires the Secretary of the Treasury to adopt regulations to encourage regulatory and law enforcement authorities to share with financial institutions information regarding individuals, entities, and organizations engaged in or reasonably suspected of engaging in terrorist acts or money laundering activities. FinCEN established the Section 314(a) Program through 31 CFR Part 1010.520. In contrast, Section 314(b) of the USA PATRIOT Act provides financial institutions with the ability to share information with one another, under a safe harbor that offers protections from liability, in order to better identify and report potential money laundering or terrorist activities. Information sharing under Section 314(b) is voluntary.

Mr. El-Hindi advised that under Section 314(a) — information sharing between government and industry — FinCEN reaches out to approximately 40,000 points of contact within the financial industry on a bi-weekly basis to ask if they have financial data that could support a significant money laundering or terrorist financing investigation. Typically, when a financial institution receives such a request, banking staff check for matches with accounts or transactions. Mr. El-Hindi reported that, of the 17 financial institutions represented at the CBAC meeting, seven have had at least one positive response to a FinCEN Section 314(a) request. He emphasized that these situations involve significant terrorism and money laundering cases. Overall, law enforcement officials identify ten new accounts and 47 new transactions per Section 314(a) request with 95 percent of Section 314(a) requests contributing to arrests or indictments.

With respect to the Section 314(b) program — information sharing among financial institutions — approximately 6,000 financial institutions participate in the program. He explained that Section 314(b) can be particularly useful to financial institutions in understanding and identifying their customers’ sources of funds which, in turn, helps institutions more effectively fulfill SAR filing obligations.

Mr. El-Hindi concluded by stating that, even though FinCEN believes the current reporting system is good, they are always looking for ways to improve the system and make it more efficient.

Building upon Mr. El-Hindi's presentation, Mr. Kiefel provided an overview of a project to map out and catalogue the full value of BSA reporting. He introduced the concept of a "value chain" and explained that the value of BSA filings is much more than, "Does a single SAR or Currency Transaction Report ("CTR") lead to a particular investigation?" Rather, the value of BSA reporting also derives from the ability to aggregate the data, particularly when data is submitted by an array of stakeholders such as financial institutions, law enforcement officials, and regulators. In addition, a BSA filing might appear to have minimal value on the day it is filed but, in ten years, it could be a crucial piece of an investigation. The project is therefore designed to clarify the "characteristics" of the value provided by BSA data; identify stakeholders; determine how the various stakeholders draw upon the data; and determine how the overall "value chain" can more effectively be used going forward. Mr. Kiefel emphasized that FinCEN wants to better understand everyone's perspectives on the value of BSA data and looks forward to hearing from stakeholders at all levels of the reporting process. In order to illustrate that the aggregated data, that is, the totality of the reporting, is being used in a value-added way, Mr. Kiefel introduced Ms. Richardson and advised that she would provide an example of how the aggregation of SAR data has contributed to the fight against "Elder Financial Exploitation" ("EFE") or exploitation of the elderly.

Ms. Richardson explained that financial institutions can specifically report an EFE by selecting an EFE-dedicated checkbox on the SAR form. For purposes of this example, FinCEN analysts read a statistically representative sample of the hundreds of thousands of SARs filed, tallied the data, and started seeing themes in the narratives. This review led to the finding that the number of EFE SARs filed during the period 2012-2017 has grown; theft and scams are the most common types of crimes committed against the elderly; and crimes against the elderly are most often committed by family members and non-family caregivers. After further discussing statistics related to filers and users of FinCEN data, Ms. Richardson provided two additional examples where data-aggregation led to better protections for the elderly: (1) A report issued by the Consumer Financial Protection Bureau ("CFPB") analyzed over five years' worth of SARs identifying elderly exploitation and thereby raised public awareness; and (2) a Department of Justice sweep or roll-up of technology-supported scams targeting the elderly helped stop criminals from preying on the elderly. Ms. Richardson assured the Committee members that the data they contribute goes into a system that is extremely valuable for a large audience of government users. She said she regularly hears from law enforcement users of the BSA system that, if not for the system, they would not have found the information they needed. The panelists closed their formal remarks by thanking the banking community for their important contributions in securing BSA data.

In the discussion that followed, the Committee members suggested that soliciting feedback from the state banking associations might be helpful. Mr. El-Hindi agreed and said that state banking agencies have, indeed, reached out to FinCEN, and they've engaged in a dialogue. The Committee members also asked if there is a better way for banks to aggregate the BSA data. Mr. El-Hindi responded that CTR information is also very important and that CTR reporting is



objective while SAR filing is subjective. The Committee members then engaged in a discussion of threshold reporting requirements and whether the threshold could be increased. Mr. El-Hindi responded that the \$10,000 filing threshold is still relevant, particularly in the context of terrorism where lower-dollar amounts are more often utilized. If threshold values are raised, FinCEN would lose that data, he suggested. In short, Mr. El-Hindi suggested, it is important to look at, not just the \$10,000 reporting threshold, but at the data generated by that lower-dollar threshold; however, Mr. El-Hindi noted that FinCEN is studying thresholds. With respect to Section 314(b) information sharing, one Committee member acknowledged that his bank uses it and it does help to make better decisions. He also asked about the CTR exemption process. Mr. El-Hindi responded that the exemption process is governed by regulation; if a customer meets certain requirements, the customer can be exempted.

Another Committee member advised that his smaller community bank has limited operational resources with just 14 employees. Five of those employees participate in filing SARs and CTRs, and at least three other individuals review each SAR and CTR. In addition, the bank hires a third-party company to come in once a quarter and review 100 percent of the CTRs and SARs. He commented that this is excessively costly for a small bank and it would be appreciated if anything could be done to reduce the burden on small banks. Mr. El-Hindi responded that this is one of the reasons the CBAC forum is welcomed as an opportunity for FinCEN to engage with the industry and relay how valuable the information provided by banks is and why it needs to be collected. He further responded that FinCEN is always looking for ways to lessen the burden on smaller banks, resource sharing being one of them.

Mr. Davis announced that the meeting would briefly recess. Accordingly, the meeting stood in recess at 10:36 a.m.

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The meeting reconvened at 10:51 a.m. that same day, at which time Mr. Davis introduced the next agenda item titled "Committee Member Discussions of Local Banking Conditions." The Committee members, in turn, described the opportunities for and challenges faced by their community banks.

Generally, members expressed continued concern about the increase in deposit rates and the impact on smaller banks. As a result of increased rates, banks are seeing their costs of funds increase which, in turn, puts pressure on profitability margins. Other members commented that the bump that small business received as result of the tax cut has now been absorbed into the market. Member Hanrahan commented that the low, flat yield curve remains a concern.

Several members commended the FDIC for bringing the issue of de novo banks to the forefront. Regarding de novo banks, Member Hanrahan commented that the biggest challenge would not necessarily be raising new capital or obtaining regulatory approval but rather generating a return on investment that makes sense. In this way, he suggested, the yield curve is a challenging condition for an existing bank and very challenging for a new bank. Smaller banks are considering how to supplement non-interest income and other fee structures that will compensate and generate a return on equity that will be suitable for the bank's investors.

Member Williams commented that starting a new bank presents a tough business case and explained that the costs to start a de novo bank are high. He also commented on the costs to develop new products and services and suggested that the key to success is finding good fintech partnerships.

Other members commented that they are experiencing intense competition for loans and deposits. Member Epstein mentioned that the relaxing of credit standards by other competitors is a concern.

Member Walker thanked the Chairman for attending the Western Bankers CEO Conference and provided the following feedback from the Conference participants:

1. The FDIC safety and soundness examinations have been refreshing, performed in a collaborative, fair and transparent manner.
2. The focus on the elimination of the outdated Financial Institution Letters (“FILs”) and supervisory memos has been positive.
3. It would be helpful for the FDIC to take a closer look at the Community Reinvestment Act (“CRA”) requirements with a focus on consistency, what counts, what doesn’t count, the definition of an assessment area, and the large bank asset threshold.
4. BSA compliance continues to be costly and burdensome for smaller banks. She suggested that solutions which reduce the filing burden of CTRs would be helpful as well as considering a “seasoned customer” exemption.
5. She also raised the issue of clarification with respect to banking and the cannabis industry. There is currently an effort to form a public bank in California so they would welcome the opportunity to meet with the FDIC and gain a perspective on the manner in which these entities would be insured.
6. Relating to capital proposals, capital ratios of 8 percent are preferred to 9 percent and keep the framework simple and optional.
7. Regarding the Truth-in-Lending Act (“TILA”) and Real Estate Settlement Procedures Act (“RESPA”) Integrated Disclosure (“TRID”) rule, an exemption from TRID for construction loans would be helpful since it would allow more banks to participate in construction lending, which is important given recent disasters in California.
8. Certain rural banks received regulatory criticism for out-of-market lending, and these banks feel the criticism is unwarranted because there is not much of a market where they are located.
9. Finally, clarification would be welcomed regarding what the FDIC considers to be “stable funding.”

Following Member Walker's summary, other members described challenges for growing their banks' core deposit base. Member Leavitt described challenges with appealing to the next generation of customers. Member Williams discussed the impact of the adoption of the current expected credit loss ("CECL") standard and suggested that the impact may be greater than some banks anticipate. Member Paine said that her bank has had success with sharing services with banks in other towns, including audit and compliance services.

Following additional comments from members regarding banking conditions in their communities, Mr. Davis announced that the meeting would recess for lunch. Accordingly, at 12:10 p.m., the meeting stood in recess.

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The meeting reconvened at 1:07 p.m. that same day, at which time Mr. Davis introduced the next panel discussion on "Supervision Update," with: Doreen Eberley, Director, RMS; Rae-Ann Miller, Associate Director, RMS; Robert Storch, Chief Accountant, RMS; and Ryan Billingsley, Corporate Expert (Capital Markets), RMS. Chairman McWilliams thanked the staff from RMS for their tireless efforts since her appointment as Chairman to review guidance and rulemakings.

Ms. Eberley gave a brief overview of the panel's presentation, noting that Ms. Miller would provide an update on the reciprocal deposit final rule issued December 18, 2018, and the advanced notice of proposed rulemaking ("ANPR") requesting comments on all aspects of the brokered deposit and interest rate restriction regulations, also issued December 18, 2018; that Mr. Storch would discuss recent Call Report revisions and implementation of the CECL methodology; and that Mr. Billingsley would address the community bank leverage ratio.

Ms. Miller began by explaining that the effect of recent changes to the regulations is that reciprocal deposits will no longer have to be reported as brokered deposits on the Call Report. She noted that there are two limitations to that reporting: (1) a general cap under which institutions that are well capitalized and have a composite condition of outstanding or good — which corresponds to CAMELS ratings "1" or "2" generally as of their last examination — or that have not obtained a waiver from the FDIC, may except from being reported as brokered deposits qualifying reciprocals up to the general cap of 20 percent of the institution's liabilities or \$5 billion dollars, whichever is less; and (2) a special cap under which institutions that are not well capitalized or not in outstanding or good condition may accept qualifying reciprocal deposits up to a special cap, which is the lesser of either the general cap or the average of reciprocal deposits held during the last four quarters since the institution was well capitalized and in outstanding or good condition. She explained that there are some other limitations to be cognizant of in the law and the regulation, including that less than well capitalized institutions that do have the exemption are still subject to statutory interest rate restrictions on all deposits, including reciprocal deposits not reported as brokered, and the exempted deposit cannot consist of funds obtained for the institution directly or indirectly by or through a deposit broker before submission of placement into the deposit placement network.

Ms. Miller noted that the ANPR issued December 2018 provides a significant amount of data and information and asked for comments on all aspects of the brokered deposit regulation, with the comment period remaining open through May 7, 2019; and that the FDIC was interested in all comments, particularly those related to sweep deposits, deposit listing services, the statutory exceptions set forth, and how the statutory exceptions were interpreted. She advised that the ANPR includes some discussion of the definition of the national rate, as well as specific questions on classifications of deposit brokers and brokered deposits and the FDIC's interpretation of the law, including how it is applied and the calculation of the rate restrictions.

Noting that the ANPR addresses a national rate cap, Member Epstein asked if there has been consideration of a regional rate cap. In response, Ms. Miller indicated that comments on a regional rate cap could be submitted. Member Donnelly commented on the effects of the data used to set rates for different markets in different regions, noting that his bank with two locations in the same city is competing with every credit union in the city, as well as online brokers advertising deposit rates that are considerably higher than his market. He asked whether the FDIC has examined this change in the environment. Ms. Miller responded, explaining that the peg was last changed in 2009 because of changes in the market. She stated that the law requires the FDIC to set a national rate but it provides a mechanism that allows a bank to apply for a local rate determination. She noted that the rate restrictions were there for a reason and apply when an institution becomes troubled; that there needs to be a balance between being punitive and being reasonable; and that the FDIC welcomes all ideas in response to the ANPR.

Next, Mr. Storch provided a brief update on recent developments related to accounting and regulatory reporting. He began by noting that the effective date of the FASB's accounting standard on credit losses that introduces the CECL methodology was getting closer every month; that the earliest mandatory effective date was on January 1, 2020, for Securities and Exchange Commission ("SEC") filers, but that early adoption was permitted in the first quarter of 2019; and that, in response to the accounting change, the federal banking agencies under the auspices of the Federal Financial Institutions Examination Council ("FFIEC"), have finalized a number of revisions to the Call Report to accommodate the CECL methodology and the separate change for credit loss accounting for available-for-sale debt securities. He advised that these revisions were announced in a FIL from the FFIEC in early March 2019; and that because the FASB's credit losses accounting standard includes different effective dates for three categories of institutions depending on their characteristics and includes this year's early adoption, the changes to the Call Report will begin to take effect March 31, 2019, but will not be fully phased-in until year-end 2022. He explained that there will be gradual changes in the terminology as the allowance for loans and leases losses becomes the allowance for credit losses on loans and leases; and that, after the institution adopts the new accounting, there will also be allowances for credit losses on held-to-maturity debt securities and available-for-sale debt securities. He also explained that, because of the different effective dates for different institutions, the Call Report forms, through the use of footnotes and the Call Report instructions, will address which accounting terms and Call Report data items are applicable to which institutions during the period the industry transitions to the new accounting standard. Although the Call Report revisions will begin to appear in the first quarter 2019 Call Report, he emphasized that an institution is not required to adopt the CECL methodology any sooner than the effective date applicable to such institution

under the accounting standard. He advised that the Call Report changes taking effect in the first quarter 2019 also relate to the final rule recently issued by the agencies that provides for an optional three-year phase-in of the initial, or day-one, impact on regulatory capital of adopting the CECL methodology; that the Call Report regulatory capital schedule will include a new “Yes/No” item to indicate whether an institution that has adopted CECL has the CECL election in effect as of the quarter-end report date, and, if it does, the form and instructions will explain where the various transitional amounts should be included in the regulatory capital schedule during the three-year phase-in period; and that these transitional amounts only affect regulatory capital, and not the amounts that the institution that has adopted the new credit losses accounting standard reports on the Call Report balance sheet and income statement.

Mr. Storch advised that the agencies also have issued a notice of proposed rulemaking (“NPR”) for an optional community bank leverage ratio (“CBLR”) for qualifying institutions that, for illustrative purposes, includes a potential reporting format for a CBLR reporting schedule that could be included in the Call Report; and that the agencies’ capital policy staffs have been working with the FFIEC’s Task Force on Reports to develop a proposed one-page CBLR reporting schedule, which they expect to be issued for comment within a few weeks. He then provided a brief overview of the process that the agencies go through under the Paperwork Reduction Act (“PRA”) to implement the CBLR reporting schedule as part of the Call Report, noting that the agencies are required to publish a Federal Register notice for the proposed CBLR reporting schedule and related deposit insurance assessment revisions for a 60-day public comment period; that the agencies will next determine whether the proposed CBLR revisions to the Call Report should be modified in response to any comments and to align the proposed CBLR revisions with the final rule on the CBLR and the related assessment revisions; and that, as required by the PRA, the agencies will then publish a second Federal Register notice for a 30-day comment period and submit the final revisions to the Call Report to the U.S. Office of Management and Budget for review and approval, with the final CBLR reporting requirements taking effect the same quarter as the effective date of the final CBLR rule.

Mr. Storch then turned back to the FASB’s credit loss accounting standard, advising that, since the standard was issued in 2016, the agencies first issued a joint statement on the standard that same month, and then, in December 2016 and September 2017, the FDIC issued Frequently Asked Questions (“FAQs”) on the standard with the 2017 document incorporating the FAQs originally issued in 2016. He explained that the focus of the FAQs is on the application of CECL and other aspects of the new accounting standard, as well as related supervisory expectations; that the agencies have developed some additional FAQs, which have been combined into a single document with the existing FAQs; and that the agencies expect to issue this expanded set of FAQs very soon. He also explained that, in the latest FAQs document, the agencies have updated the responses to three previously issued questions affected by the FASB’s November 2018 amendment to the effective date of the standard for those institutions that are not public business entities (“PBEs”) to reflect this new effective date of the standard for these entities in the responses to those questions; that the effective date amendment means that non-PBEs that have a calendar year fiscal year would begin reporting credit loss under CECL in the first quarter 2022, rather than in the fourth quarter 2021; that the new FAQs document includes minor editorial technical changes to certain previously issued FAQs; and that it will also signal that the agencies plan to issue proposed supervisory guidance on the allowance for credit losses

under CECL before year-end 2019. He advised that the supervisory guidance would replace the agencies' 2001 and 2006 allowance policy statements for institutions as they adopt the accounting standard over time; and that until that time each institution should continue to follow current U.S. GAAP on impairment and the allowance for loans and lease losses, and refer to the two existing policy statements. He concluded by advising that the agencies will be hosting an interagency webinar for bankers on the weighted average remaining maturity method, or "WARM" method, for estimating allowances for credit losses on April 11, 2019, with representatives from the FASB, the SEC, and the Conference of State Bank Supervisors participating in the webinar.

Member Epstein asked if the FDIC has estimated how the average provision will be affected across the industry, including how much will have to be added to the allowances. In response, Mr. Storch advised that the expectation is that most banks would have to increase their allowances because the new model is forward-looking and takes into account the expected lifetime credit losses of loans and held-to-maturity debt securities, in addition to the modification to available-for-sale securities; that it is difficult to forecast the overall effect because it would depend on the composition of each bank's portfolio, their underwriting practices, their allowance levels going into the effective date, and their forecasts for the credit risk drivers that are key factors in estimating collectability; and that, rather than an overall estimate, the agencies have used a "sensitivity analysis" that analyzes the effect on a bank's capital ratios of having to increase their allowances by varying percentages.

Noting that there are a number of options for the method used to calculate the allowance going forward, Ms. Eberley asked Mr. Storch to briefly address how the FDIC is training examiners regarding the methodology. Mr. Storch responded by noting that there is a multi-year training initiative to ensure that examiners understand the standard and the supervisory expectations; and that the standard does not have a single permissible approach, but was designed to provide flexibility and scalability to institutions because the FASB recognized that the standard needs to be operational regardless of an institution's size and its complexity. He also noted that the choice of method is up to the institution; and that, assuming that the institution has good documentation and controls around the method selected by the institution, the examiners should be focused on evaluating how well the institution is doing with the method it has employed.

Member Donnelly asked what the expectations were regarding the documentation to support the bank's methodology. In response, Mr. Storch advised that the documentation support discussed in the 2001 policy statement for the current incurred-loss methodology would carry forward to the CECL methodology; and that the extent of documentation support is going to be tailored to the size and complexity of the institution.

Member Edwards asked if Mr. Storch could further explain the CBLR and the 9 percent threshold, noting that more banks could qualify if the threshold ratio was lowered to 8 percent. In response, Mr. Billingsley explained that the FDIC is considering the threshold amount as part of the deliberative process.

Mr. Billingsley then briefly discussed the CBLR proposal, noting that it is designed to be an optional framework for banks; that there was some discretion in how to define a “qualifying community bank” under the statute; that one mechanism to opt in to the framework outlined in the NPR is by completing the one-page Call Report; and that there are a few factors that would make a bank a qualifying community bank, including the statutory factor of total assets of less than \$10 billion, off-balance sheet exposure of less than 25 percent of total assets, trading assets and liabilities less than 5 percent of total assets, mortgage servicing assets of less than 25 percent of tangible equity, and certain deferred tax assets (“DTAs”) of less than 25 percent of tangible equity. He also explained that the FDIC opted for simplicity in the ratio itself; that the numerator is the community bank leverage ratio tangible equity, which is not Tier 1 capital and is different than the existing framework; and the denominator is average assets, which is the same as what banks currently use for their Tier 1 leverage ratio. He briefly discussed some of the comments received to date on the NPR, noting that there has been a preference for a lower ratio; that some comments expressed concern about the introduction of the PCA proxy; and that other comments expressed a preference to stick with Tier 1 capital as the numerator.

Member Hanrahan commented that an 8 percent rather than a 9 percent CBLR would be a very good proxy for a bank that exceeds the well-capitalized PCA standards. In response, Mr. Billingsley explained that part of the rationale for selecting the qualifying criteria is that, if a bank has a number of the qualifying criteria in the existing system with the risk-based capital framework, then the bank’s risk-based capital requirements will increase; and that one of the stated goals in developing the CBLR framework is not to allow a reduction in capital through this framework.

Member Donnelly observed that, if his bank chooses not to opt in, then it will be treated differently if the bank drops below a 9 percent capital ratio than if the bank had opted in. Mr. Billingsley responded by explaining that, if a bank has a declining CBLR, it may want to do some proactive thinking about switching back to risk-based capital because its risk-based ratios may be higher and it will provide an extra capital cushion over the PCA threshold. Member Donnelly commented that it appears as if a layer of complexity and work has been added to an otherwise fairly simple calculation of capital. Member Shettlesworth commented that, even if a bank opts in to the CBLR framework, it will still need to track all capital ratios; and that the only potential benefit of opting in might be a shortened Call Report.

Ms. Eberley then introduced the panel’s next presenters, advising that Lisa Arquette, Associate Director, RMS, would present an update on anti-money laundering (“AML”) developments; that Martin Henning, Deputy Director, RMS, would present an update on supply chain risk, as well as recommendations regarding contractual provisions with service providers; and that Luke Brown, Associate Director, Division of Depositor and Consumer Protection (“DCP”), would present an update on changes in the flood insurance regulation.

Ms. Arquette began by recalling that, in October 2018, she provided the Committee with an update on the recently-issued interagency statement related to sharing BSA and AML resources. Ms. Arquette also highlighted an interagency statement issued in December 2018 to encourage innovation approaches and technology in the BSA/AML area. She also informed the

Committee of two additional statements to be issued in the future. She explained that the first statement would be issued by the FDIC along with the other federal banking agencies and FinCEN. She noted that this statement is an attempt to be transparent with the industry regarding how the FDIC conducts BSA/AML examinations; that the BSA/AML examination process is a risk-focused approach that begins with reviewing a bank's risk assessment and independent review; and that, provided they cover all of the bank's customers, products, services, geographies in which it operates, as well as the bank's risk for money laundering, terrorist financing, and other illicit financial risk, the examiners will leverage that information and tailor the scope of the examination. She emphasized that the better the bank's own assessment is in identifying its risk profile, the less time the BSA/AML examiners need to spend onsite. She noted that the statement will provide more transparency regarding the steps involved in this risk-focused process.

Ms. Arquette then explained that the second statement would be issued by the federal banking agencies, and it would relate to the FDIC's authority under section 8 of the FDI Act to enforce BSA requirements. She indicated that the statement will provide clarity for those situations where the FDIC would have to take a formal enforcement action relating to the BSA; she explained that formal actions are required where there are significant breakdowns in BSA compliance programs. She noted that a bank has to have a BSA officer, independent testing, training, and internal controls that are risk-based and reasonably designed to maintain compliance with the BSA requirements, together with a customer identification program and customer due diligence program to understand the nature and purpose of the bank's customers and those relationships; and that, if there is a significant, systemic failure in any one of those components, the banking agencies are required to take a formal action. She put the issue into perspective by explaining that the FDIC performs a BSA review during every safety and soundness examination; and that, out of more than 1,500 exams in 2018, the FDIC took eight formal actions.

Ms. Arquette then briefly discussed recent developments related to hemp production and hemp-derived products. She noted that, in 2014, the Agricultural Act permitted industrial hemp research that was authorized by certain states, and it legalized growing and cultivating industrial hemp for research purposes in states where such growing and cultivating was legal under state law. She further explained that the new Farm Bill enacted in December 2018 treated hemp like other agricultural products; it explicitly allows for the transfer of hemp-derived products across state lines for commercial and other purposes and places no restrictions on the sale, transport or possession of hemp-derived products, provided those products are produced in a manner prescribed by law. She clarified that hemp cannot contain more than 0.3 percent of delta-9 tetrahydrocannabinol ("THC") and that hemp that meets the 0.3 percent THC criteria has been removed as a controlled substance and no longer violates federal law. She explained the importance of these changes, noting that, if a bank has a marijuana-related business as a customer, then the bank is required to file a SAR, because cannabis or marijuana violates federal law; and that a bank that has a customer engaged in cultivating or growing industrial hemp, in the absence of any other indicia of criminal activity, would not have to file a SAR, because the derivative hemp that meets the 0.3 percent THC criteria is not a controlled substance.



In response to comments from Committee Members Kimbell and Donnelly, Ms. Arquette emphasized that banks that have customers involved in hemp-related businesses still have the customer due diligence requirements – the banks need to understand the nature and purpose of the customer accounts and make sure the business is complying with the state licensing requirements and regulations.

Next, Mr. Henning then briefly discussed two areas that the FDIC is currently focused on concerning IT and cyber security risks – supply chain risk and strong contracts. He advised that regarding the supply chain risk, the risks are very similar to any third-party service provider. He noted that, in June 2018, the Office of Foreign Assets Control (“OFAC”) released a statement that identified several companies and three individuals; that one of those companies, Digital Security, was designated by OFAC for providing technological support to the Russian Intelligence Services, and Digital Security owned and controlled a second company, ERPScan; and that this appears to be the first time a company has been sanctioned by OFAC. He briefly explained that ERPScan was offering security services for enterprise resource planning products that would map out or scan a bank’s IT infrastructure; and that, in response to these service offerings being reported, the FDIC took two actions: (1) it checked to verify that the two companies were not in the FDIC’s IT service provider database which is built through bank reporting under the Bank Service Company Act; and (2) it collaborated with the other federal banking agencies to issue a joint statement and press release in November 2018 that recommended assessing, identifying, and mitigating any risks associated with these sanctions.

Mr. Henning then proceeded to discuss the second area of focus – strong contracts, particularly contracts with a bank’s core service provider. As an example, he explained that a bank’s ability to alert customers to a heightened risk of identity fraud resulting from a breach at a service provider is dependent on the service provider alerting the bank to the incident; and that the specifics around incident notification should be explicitly referenced in the contract, with terms that are well understood and measured by both parties. He provided a second example, noting that a bank’s ability to respond to and recover from a cyber incident is increasingly becoming dependent on the service provider’s ability, rather than the bank itself, as banks move away from hosting their core services themselves; and that this needs to be explicitly referenced in the contract with terms that are understood by both parties. He also noted that, in 2016, the IT examination procedures focused more closely on the review of third-party IT contracts. He also stated that the FDIC’s examiners are highlighting weaknesses with third-party IT contracts more often today than prior to 2016. He concluded by advising that the FDIC meets periodically with the leaders of technology service provider companies and that the FDIC has emphasized and continues to emphasize the need for contracts to mature and strengthen in these two areas.

Mr. Brown then discussed changes in the flood insurance regulation. He noted that a 2018 study found that more than 95 percent of residential flood insurance policies sold in the United States are purchased through the federally-sponsored National Flood Insurance Program; and that the study estimated that private flood insurance policies in the United States account for about 3.5 to 4.5 percent of the market. He advised that the Biggert-Waters Flood Insurance Reform Act directed the FDIC, OCC, FRB, FCA, and the NCUA to issue regulations requiring lenders to accept private flood insurance policies, as defined by the Act; that the final rule was issued in February 2019; and that the primary issues addressed by the final rule are lenders’

mandatory acceptance of the private flood insurance policies, lenders' discretionary acceptance of private policies, and coverage by mutual aid societies.

He explained that the first key issue covered by the final rule is lenders' mandatory acceptance; and that the final rule requires lenders to accept private flood insurance policies that meet both the statutory definition of private flood insurance and the mandatory purchase requirement. He noted that the final rule includes a compliance aid provision which allows banks to conclude that a private flood insurance policy meets the definition of private flood insurance without further review of the policy if the policy contains a written statement indicating that the policy meets the definition of private flood insurance; and that the lender may choose not to rely on the statement and choose to separately review the policy and determine whether it meets the definition. He continued, explaining that the second key issue concerned lenders' discretionary acceptance of private flood insurance policies; that the final rule permits institutions to exercise their discretion to accept certain private flood insurance policies that do not meet the statutory definition of private flood insurance, subject to four conditions: (1) the policy provides coverage in the amount required by the flood insurance purchase requirement; (2) it is provided by an insurer that is licensed, admitted, or not disapproved by a state insurance regulator; (3) it covers both the mortgagor and the mortgagee as loss payees; and (4) it provides sufficient protection for the loan consistent with general safety and soundness principles.

He briefly discussed another key component of the final rule concerning mutual aid society plans, explaining that lenders are permitted to use their discretion to accept a plan provided by a mutual aid society, provided the plan meets the following criteria: the lender's primary supervisory agency has determined that such plans qualify as flood insurance under the Biggers-Waters Act and the plan provides flood insurance in the amount required by the flood insurance purchase requirement, covers both the mortgagor and the mortgagee as loss payees, and provides sufficient protection for the loan consistent with general safety and soundness principles. He concluded by noting that the effective date of the final rule is July 1, 2019.

Mr. Davis next introduced Anthony Lowe, FDIC Ombudsman, Office of the Ombudsman ("OO"), to give an update regarding the post-examination survey process.

Mr. Lowe advised that the FDIC implemented the survey in 2002. (FIL-116-2002, Oct. 3, 2002.) The survey is part of the FDIC's effort to continuously improve the quality and efficiency of the examination process and ensure examinations are a beneficial tool to achieve safety and soundness standards and regulatory compliance. The survey centers on the examination report and asks questions pertaining to the clarity of the transmittal letter and the usefulness of the examination recommendations. Mr. Lowe explained that, at the conclusion of an examination, the appropriate division director sends separate correspondence to the bank describing the survey process. The correspondence includes a unique identifier number the bank can use to complete the survey electronically. The survey solicits information regarding five broad categories: the pre-examination process, the examiners, the examination process, the examination report, and other observations or information. The FDIC's Division of Insurance and Research aggregates the survey data and shares the results with the division directors.

After outlining the response rates to the surveys, Mr. Lowe observed that there is no empirical data underlying the response rates but that anecdotal evidence suggests some bankers are concerned with confidentiality. Although the current survey process is completely confidential, the OO and the divisions plan to revamp the process in an effort to eliminate concerns regarding confidentiality. First, the OO will assume responsibility for sending out the survey. Second, in order to increase response rates, the OO plans to send a pre-survey notice and a later, reminder notice. Third, the OO will take additional steps to protect the feedback process and ensure that, if a bank asks to be contacted, the survey information will be redacted and only the contact information will be provided to the divisions. Fourth, the survey questions will be updated as appropriate. Mr. Lowe then invited the Committee members to share their comments regarding the survey process.

Member DeBiasi commented that the survey was not too lengthy and was surprised that the response rates were low. Member Epstein advised that it might be a good idea to communicate right up front that the survey takes just 10 to 15 minutes to complete, and that might increase response rates.

Mr. Davis announced that the meeting would take a mid-afternoon break. Accordingly, at 2:36 p.m. the meeting stood in recess.

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The meeting reconvened at 2:47 p.m. that same day. Mr. Davis introduced the presenters of the next panel, “2017 FDIC National Survey of Unbanked and Underbanked Households,” as Keith Ernst, Associate Director, DCP; Alicia Lloro, Senior Financial Economist, DCP; and Jeffrey Weinstein, Senior Financial Economist, DCP.

Mr. Ernst began the presentation by explaining that one of the FDIC’s responsibilities is to assess participation in the banking system. Over the years, survey research has become a key tool in this area, and the survey used by the FDIC is the product of collaborative work between the FDIC and the U.S. Census Bureau. Mr. Ernst stated that the survey provides a reliable frame of reference for understanding the extent and nature of participation in the banking system and for beginning to think about opportunities to expand economic inclusion. Mr. Ernst then introduced Mr. Weinstein to present a summary of the 2017 survey results.

Mr. Weinstein advised that the fifth biennial household survey was conducted in June of 2017; the sample was nationally representative with over 35,000 respondents; estimates are available at national and state levels and for larger metropolitan statistical areas (“MSAs”). He explained that a household is classified as unbanked if no one in the household had a checking or savings account. A household is classified as underbanked if it had a checking or savings account and used one of the following products or services from an alternative financial services provider in the past 12 months: money orders, check cashing services, international remittances, payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, or auto title loans.

Mr. Weinstein observed that in 2017, 6.5 percent of U.S. households (8.4 million) were unbanked. This, he said, was the lowest unbanked rate since the survey began in 2009. Mr. Weinstein stated that the decline in the unbanked rate from 2015 to 2017 can be explained almost entirely by improvements in socioeconomic circumstances of U.S. households. Regarding underbanked households, he said that in 2017, 18.7 percent of U.S. households (22.4 million) were underbanked. This was a decline of 1.2 percentage points from 2015 and can be attributable, in part, to improvements in socioeconomic circumstances of U.S. households. He stated that, as in previous years, unbanked and underbanked rates continued to vary considerably across the population and were higher among lower-income households, less-educated households, younger households, black and Hispanic households, households headed by a working-age individual with a disability, and households with variable income.

Mr. Weinstein then discussed changes in unbanked rates for certain populations. For instance, recent declines in unbanked rates were particularly sharp for younger households. Unbanked rates for black and Hispanic households have also sharply declined in recent years. Looking at geographic variation, unbanked and underbanked rates varied widely across states with rates generally highest in the South. Mr. Weinstein next discussed the reasons households gave for being unbanked, noting the primary reason cited was simply not having enough money to keep in an account. The survey results also showed a sharp increase in the use of mobile banking and a substantial decline in the use of bank tellers as the primary methods of account access.

Ms. Lloro then presented the survey results for bank branch visits among banked households in the last 12 months. Ms. Lloro stated that in 2017, 86 percent of banked households visited a bank branch at least once and 35.4 percent visited 10 or more times. She also pointed out that ATM-only visits are not included in the data. She reported that the results showed that households in rural areas were more likely to visit a bank branch and nearly half visited ten or more times. Branch visits were prevalent even among banked households that used mobile or online banking as a primary method of account access, with about 25 percent of these households having visited a bank branch 10 or more times in the past 12 months.

Ms. Lloro advised that the 2017 survey included questions to capture the full range of credit products that are likely reported to the major credit bureaus. About 20 percent of households had no mainstream credit in the past 12 months. As a result these households likely do not have a credit score and likely face substantially reduced access to mainstream credit. Differences in rates of no mainstream credit were especially pronounced by income. Of households with income of less than \$15,000, about half had no mainstream credit in the past 12 months, compared with only 4.3 percent of households with income greater than \$75,000. She emphasized that the results showed large differences by disability status and race/ethnicity. About 40 percent of households headed by a working-age individual with a disability had no mainstream credit. Approximately one-third of black and Hispanic households had no mainstream credit, compared to 14 percent of white households.

Ms. Lloro then focused on three selected findings: (1) New underwriting technologies may help expand access to small-dollar credit; (2) Physical access to bank branches remains important even as the use of mobile and online banking has increased; (3) Targeted strategies for

outreach or product design may help sustain increases in bank account ownership during economic downturns and increase access for population segments with high unbanked rates. Ms. Lloro concluded by indicating that the full report, appendix tables, executive summary, and other materials can be found on the web page, [economicinclusion.gov](http://economicinclusion.gov).

Following the presentation, the Committee members and staff discussed the 2017 survey results at length. Member Kenneth Kelly asked whether there was data regarding the cost associated with being unbanked. Mr. Ernst replied that the FDIC does not have that specific data and that the data varies widely across different geographic regions and individual circumstances. He agreed that, while cost is a very important element, control and convenience are also important elements. Member Kelly also suggested that if the FDIC could communicate the costs associated with being underbanked, then consumers may better understand the message about financial literacy. Member Shettlesworth asked how services such as PayPal and stored value cards are related to the unbanked and underbanked equation. Mr. Ernst responded that PayPal and prepaid cards operate in a “gray zone” and, in fact, one of the innovations being looked at for the next survey is to capture data regarding bank customers who may be using a prepaid card managed by a bank.

With respect to households who reported they did not have bank accounts because they had insufficient funds, Mr. Ernst explained that, for households earning less than \$15,000 per year, almost half of these households do have a bank account. Thus, the question becomes whether other low-income households forego bank accounts due to their perception of potential expenses rather than the reality of costs. Turning to the issue of consumer education and financial literacy, Mr. Ernst advised that the FDIC is involved in a range of financial literacy efforts, including the Money Smart program, which the FDIC developed. Member Epstein then asked if other banks had launched successful inclusion efforts and whether that information could be shared. Mr. Ernst responded that there have been two previous research projects, the first being a pilot program launched by the FDIC and called “Safe Accounts,” and the second being an in-depth study of the strategies used by banks to expand economic inclusion.

Mr. Davis then introduced Brandon Milhorn, Chief of Staff, to discuss the activities of the Subcommittee on Supervision Modernization.

Mr. Milhorn noted that the 2019 Annual Performance Plan issued by Chairman McWilliams outlined the FDIC’s goals and priorities for the year. Many of those goals related to the efficiency and effectiveness of the FDIC, including being responsible stewards for the Deposit Insurance Fund, embracing and reinvesting in technologies at the FDIC, and cutting the cost of compliance for regulated institutions. An important question facing the FDIC and the banking community, he suggested, is: “Where will the industry be ten years from now and what does the FDIC need to do to prepare for that future, especially in the areas of training, technology, and workforce deployment?”

Mr. Milhorn observed that bank regulators must identify risks early, take steps to mitigate risks, and obtain the information needed for policy makers to make good decisions with respect to those risks. To better address these challenges, the FDIC created the Subcommittee on Supervision Modernization to support the FDIC’s Advisory Committee on Community Banking

by considering how the FDIC can leverage technology, refine processes to make the examination program more efficient, all while managing and training a geographically dispersed workforce. To achieve these goals, the subcommittee will review the examination process, review the way in which the FDIC deploys staff, consider how staff is trained and how technology is used in the process, consider the type of data the FDIC needs from supervised institutions and how that data is used in the supervision process, and examine how the FDIC can become a more effective supervisor over the course of the next several years, leveraging technology and refining the examination processes.

Mr. Milhorn reported that the subcommittee consists of fifteen members, including individuals from various banks and technology service providers, former regulators, technologists who can advise on how data and technology are being used, and an expert on distance learning. He advised that the subcommittee has met once and received a briefing regarding the fundamentals of the FDIC and how it carries out its various missions. The subcommittee identified several areas to explore, he reported, including the training environment, how the FDIC conducts loan reviews, and how the FDIC receives data and shares data with banks. Mr. Milhorn suggested the subcommittee will ultimately produce a report for consideration by the CBAC.

Mr. Hanrahan added that the FDIC assembled a good cross section of professionals and that the first meeting provided an overview of the FDIC examination process and the use of technology. Mr. Milhorn agreed that it was important to have a variety of banks represented on the subcommittee, from heavy-users of technology to those that do not use as much technology.

Chairman McWilliams then thanked the Committee members and the presenters.

There being no further business, the meeting was adjourned at 3:30 p.m.

Robert E. Feldman  
Federal Deposit Insurance Corporation  
Executive Secretary  
And Committee Management Officer  
FDIC Advisory Committee on Community Banking

Minutes  
of the  
Meeting of the FDIC Advisory Committee on Community Banking  
of the  
Federal Deposit Insurance Corporation  
Held in the Board Room  
Federal Deposit Insurance Corporation Building  
Washington, D.C.  
Open to Public Observation  
March 28, 2019 – 9:00 A.M.

I hereby certify that, to the best of my knowledge, the attached minutes are accurate and complete.

Jelena McWilliams  
Chairman  
Board of Directors  
Federal Deposit Insurance Corporation