FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON COMMUNITY BANKING

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TUESDAY
JULY 30, 2019

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The Advisory Committee on Community Banking met in the Board Room, 550 17th Street, N.W., Washington, D.C., at 9:00 a.m., Jelena MCWILLIAMS, Chairman, presiding.

PRESENT:

JELENA MCWILLIAMS, Chairman, FDIC Board of Directors
MARTIN GRUENBERG, Director, FDIC Board of Directors
DICK BESHEAR, Chairman, President & CEO, First Security Bank and Trust Company
ASIF DAKRI, Vice Chairman & CEO, Wallis Bank
FRED DeBIASI, President & CEO, American Savings Bank
CHRIS DONNELLY, President & CEO, Bank of the Prairie
JAMES J. EDWARDS, JR., CEO, United Bank
KEITH EPSTEIN, Executive Vice President & CEO, Roxboro Savings Bank, SSB
DAVID J. HANRAHAN, SR.
DANNY J. KELLY, President & CEO, The Hometown Bank of Alabama
KENNETH KELLY, Chairman & CEO, First Independence Bank
BRUCE KIMBELL, President & CEO, First Community Bank of the Heartland
THOMAS LEAVITT, President & CEO, Northfield Savings Bank
LORI MALEY, President & CEO, Bank of Bird-in-Hand
TIFFANY BAER PAINE, President & CEO, Security Bank USA
ALAN SHETTLESWORTH, President & COO, Main Bank
LOUISE WALKER, President & CEO, First Northern Bank of Dixon
LEN E. WILLIAMS, CEO, People's Intermountain Bank

ALSO PRESENT:

RYAN BILLINGSLEY, FDIC, Corporate Expert-Capital Markets, Division of Risk Management Supervision
CHAD DAVIS, FDIC, Deputy to the Chairman for External Affairs
DOREEN EBERLEY, FDIC, Director, Division of Risk Management Supervision
LEKESHIA FRASURE, FDIC, Acting Chief, Community Affairs, Division of Depositor and Consumer Protection
BOBBIE GRAY, Supervisory Community Affairs Specialist, Division of Depositor and Consumer Protection
ALLEN GUTIERREZ, Associate Administrator, Office of Entrepreneurial Development, U.S. Small Business Administration
EMERSON HALL, FDIC, Acting Associate Director, Division of Depositor and Consumer Protection
MARTIN HENNING, FDIC, Deputy Director, Division of Risk Management Supervision
M. ANTHONY LOWE, FDIC Ombudsman
BRANDON MILHORN, FDIC Chief of Staff
RAE-ANN MILLER, FDIC, Associate Director, Division of Risk Management Supervision
LUKE REYNOLDS, FDIC, Chief, Outreach and Program Development, Division of Depositor and Consumer Protection
BETTY RUDOLPH, FDIC National Director for Minority and Community Development Banking
ROBERT STORCH, FDIC, Chief Accountant, Division of Risk Management Supervision
JAMES WATKINS, FDIC, Senior Deputy Director, Division of Risk Management Supervision

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P-R-O-C-E-E-D-I-N-G-S

9:06 a.m.

CHAIRMAN MCWILLIAMS: Good morning, everybody. Thank you for being here today. I know some of you have traveled from far away. We have one person that's still delayed with flights, but it's a pleasure to have you here again today, and I'll tell you, as I am now one year in, it's a year and a couple of months, and I've done a few state visits where I go and I talk to bankers in their local communities, I've done about 21 states thus far.

I have to tell you what you provide here today and in these meetings is so valuable, and those bankers really rely on you to bring those perspectives to us. I know you quite often talk about, you know, your local experience and your local markets. But there are many banks that are similarly situated where you come from, and so thank you for being here and being the voice for those banks.

I don't want to take too much time

belaboring the thank yous, but I am very grateful that you're here, that you took the time and I can't wait to hear what you have to say today. I will turn it over to Marty if you have anything to add. Chad, please. Thank you.

MR. DAVIS: Okay. Thank you, Chairman MCWILLIAMS. We'll get started today with our go-around that we began a few meetings back. I think we've mixed everybody up, so nobody has to be first or last every time. But we did give them fair warning, so we ask Tom to go first. Oh, and we've got about an hour, ten. So if we could keep it down to three or four minutes each, that would help me keep us on schedule.

MEMBER LEAVITT: We'll get off to a good start. Is this working? Okay. Well good morning, everybody. I am Tom Leavitt of Northfield Savings Bank in the heart of the green mountain State of Vermont, and it's good to be back at this table with you all.

Just very briefly, I gave an

introduction the first meeting in late March about the outlines of Northfield Savings Bank, and I won't go into that detail today. But 152-year-old mutual bank with 13 branch offices and a billion, 30 million in assets, an independent, and the largest bank based in the State of Vermont that is headquartered there.

Vermont presently is facing conditions that are relatively stable and solid. In May, the unemployment rate in Vermont was at a national low of 2.1 percent. That's generally a healthy indicator, but also presents challenges relative to workforce. That's been tight. It shows up in the construction markets as we see projects get delayed or prolonged as people are trying to scramble those project crews.

Delinquencies are still low in our state overall and certainly for our bank. There's no significant weaknesses generally, and overall there's good opportunity in our MSA in the greater Burlington area where I'm from.

There are some sectors that we are

watching, and one of those is rural health care. Some regional and smaller hospitals are struggling with the current dynamic and mix of payers, and that's true nationally, but it's certainly also showing up in our markets. We're watching for potential overdevelopment of the lodging market, hospitality. Projects have been robust, more coming. We're just concerned longer term that we not get into a situation of oversupply.

Rental housing growth has been strong. The rents are high. Again, we hope that we don't reach a tipping point where that could put -- have a dampering effect on growth overall as it relates to the labor force.

We're looking at renewables and solar activity. It's been slowing in our market, and we -- that's the somewhat negative news. The positive news is that these solar projects have been maturing over the last three to five years, so that we're actually starting to get some history relative to the pro formas that were originally presented. Those projections are bearing out. We're happy to see that people didn't overshoot, at least not in our geography on that. But that's another area that we're watching.

Private education. The demographics are challenging in terms of being able to fund private education models in some instances, and we're seeing some of the effects of that. So something perhaps to watch for in terms of broader trends.

Residential inventories are tight in our market, which means that we have people wanting to buy, but finding the right property and getting into that property presents a challenge. We do see a bit of a refi moment perhaps on the threshold, as rates continue to be favorable and drive to a point where people are starting to think about that again.

I'll just wrap up with a couple of things on the regulatory side. We do appreciate the progress that the FDIC and the regulatory community has made on the issue of brokered deposits and the national rate question that we talked about at the last meeting, and I know we'll be talking about again today. So we are watching that with great interest.

We're watching also the rulemaking on the community based leverage ratio, community bank leverage ratio, and we are looking for final guidance on that to make a determination for our institution. Then the last thing I'll mention is management succession planning. I didn't speak about that the last time I was here.

I went back to a terrific issue that the FDIC put out in April of 2016 in Supervisory Insights, on the special corporate governance issue. In that issue is a quote that says, "Build bench strength and maintain continuity in the chief executive and other key senior management positions," when it was talking about the Board's responsibility for developing the management cadre.

It said, "Also address the process of

identifying potential successors from outside, and do so covering a three- to five-year time horizon." So to me, that very specifically speaks to the executive levels of the bank, and perhaps the key senior management levels just below the senior vice president level, which is what we focused on.

But in our most recent round, there was language in our report that suggested at all levels, and we're stuck a little bit on the definition of at all levels. We're putting together a formal management succession plan that speaks largely only to senior management. We have a professional development program that takes care of the rest of the organization.

But we're not actually looking to inculcate a management succession model throughout all levels of the bank. So hoping for some clarification on that at some point. That's all I have today, Chad.

MR. DAVIS: Thanks. Bruce, and then we'll just continue around to the right.

MEMBER KIMBELL: All right. Good morning, everyone. Bruce Kimbell, First Community Bank in Clinton, Kentucky. We're located in far western Kentucky and also in northwest Tennessee, just right across the state line there. We have about eight offices and about 240 million in assets.

We're an agricultural bank in a very rural area, and just speaking a few minutes ago about ag conditions. Ag conditions, we're beginning to see some improvement. The prices have rebounded here just a little bit here lately. In our particular part of the world, have been blessed this year with a wonderful crop. Not too much rain and got off to a little bit of a slow start there, but it's rebounded quite nicely. So things are actually looking pretty good from a production standpoint, which it's far from being complete but still we're looking at a great crop in our area this year.

So that's going to give our farmers probably an opportunity to at least get back close to home. Probably there are not a lot of profits still out there this year, but still probably won't be a lot of loss either. So that will be good. It will stem -- the last couple of years have been pretty tough, so we begin to see some restructurings and in our case, a lot of utilization of USDA-guarantee programs and those kinds of things to help us stem that tide of any losses, and reduce those losses to minimal amounts. So that works very well with us.

Rural communities still struggle. It's far from being robust, even though we do see improvements from an unemployment standpoint. And but it's definitely still a struggle in the rural area, but what we decided to do is to -- that's home and that's where we have staked our future.

Our bank over the last, probably, five years, we've I guess opened three new branches, de novo branches in different communities to try to help shore up our rural base. We're still rural by any stretch of the imagination compared to some of you in this room, in more urban/suburban type settings.

But we find that we're able to go into those areas where there's really a large regional or even a national bank presence, and we're able to go in and be different, and to present a different picture, and so that's what we're trying to do in doing that.

On the regulatory side, we've got a compliance exam coming up the end of this year. So we'll see how that goes and, you know, it's -- three years is a long time. So we'll see how that goes. But we're -- that's good. We're actually working with our examiner-in-charge right now and getting those things together. So that will be -- that will be fine.

We hear lately -- I had a phone call the other day from the Tennessee bankers, which we're a part of too, since we're on the state line. One of the things that Mr. Barrett, Colin Barrett, the director there, wanted me to address was the recent spike in acquisitions of community banks by credit unions.

That's really become a big sticking point. We actually just had an announcement from Kentucky the other day of a Tennessee credit union acquiring a Kentucky bank more up in the central part of the state. And, you know, just really that struggle there, and I know the acquisitions seem to be stepping up quite a bit.

That's a question, you know. I guess as a rural banker I have a concern with that as I look at my farmers and my customers, and I wonder how really a credit union can address those issues and address those customers like we can. I just don't feel that that's possible. And so but still we'll see how that goes.

But all said and done right now, you know, things are pretty good and we're very fortunate to be where we are, and thank you for allowing us to come and be part of this Committee, and look forward to hearing everyone else's comments.

MEMBER EDWARDS: Well good morning.

I'm Jim Edwards. I'm CEO of United Bank, headquartered in Zebulon, Georgia, about an hour south of Atlanta. We're in ten counties, sort of stretching in a southern arc around Atlanta. We're not inside the metro area, but just outside that from -- we range from about 50 miles southwest to about 50 miles southeast of Atlanta in ten counties, as I said.

A billion-four in size and a traditional community bank with a significant wealth management area, as well as a significant mortgage area also. You know, Chairman, I called everybody in the bank yesterday. I said you know, “Are we seeing anything? What am I missing here?”, because it still feels really solid here in our company and in our economy.

You know, I'm pleased to report that nobody came up with anything that really is worrying us right now. But having lived through the Great Recession in Georgia, I think we are all very nervous about an economic downturn. But we don't see that coming yet. Things are still very positive. There's good population growth in the Atlanta area right now.

That continues very strongly and that's spilling over into our area somewhat, causing a good demand for new housing. We're seeing good loan demand there on the construction side of our business. I don't think that's getting overbuilt. We're not encountering situations where we're having to renew loans to contractors and things like that.

So we're keeping a very close eye on that, but have not seen that -- those conditions deteriorate at all as of yet. Problem assets remain at really record low levels in the bank, and that's good to see here. Past dues remain very, very manageable. From a concern standpoint, you know, there is a difference and Bruce mentioned this as well.

I think the further you get away from the metro areas, I am more concerned about our rural areas. It's not so much that credit quality's deteriorating there; we're just beginning to see population declines in some of these areas that are further away.

And so that's a challenge for us. It's got kind of a mix of suburban and more rural markets. So I think that's not just a banking issue; it's a larger issue than that. But that will impact -- I see that potentially impacting our, you know, our business as well as we go forward here.

Challenges? It's hard to find good people. Lenders are very scarce out there. We've been looking for lenders now for the last two years and pretty much decided that we've got to develop our own. So that's what we have -- we've got a management training program that we have increasingly hired folks for right out of school or very early on in their careers and are trying to develop staff that way, and that's working well.

Other concerns. We've always historically had competition from regional banks and larger banks than that, even, on long-term fixed-rate loans. But we're seeing more and more smaller community banks with the yield curve the way it is now, go ahead and lock into ten-year type fixed-rate commitments.

We've not done much of that, you know. We know what the yield curve tells you what that's going to do. But the yield curve, as we all know, is often that can change. So we've been concerned and tried to maintain a very conservative interest rate risk posture. But that does worry me somewhat.

So overall things are really good. From a regulatory standpoint, the only thing I would love to at some point today, just to get a quick update, I know there's not a decision yet on this, but if you could talk or just get an update on the community bank leverage ratio issue, and if there is any further thinking on that, that would be helpful.

I know there are a lot of community banks, ours included, that are still looking at that as a potential option, but we'd love to kind of know a little more about where that -- where we're going to settle on that leverage ratio. So thanks. Glad to be here.

MEMBER MALEY: Good morning. Lori Maley, Bank of Bird-in-Hand. I'm president and CEO. Just so you know, Bank of Bird-in-Hand was the first bank after the financial crisis that was granted a charter. At the time when we opened the bank, we had 17 million in capital and ten employees. I'm happy to report we're up to 430 million in assets, and over 60 employees. So the bank has seen really unprecedented growth.

I think a lot of where that growth came from is it was an area where there was a community which is really comprised of the “Plain” community, that weren't really serviced by some of the larger banks. So this was for us kind of a perfect niche that we could service this community and build a solid bank.

So we're up to four branches and one of our branches is a mobile bank unit, which is actually a 29-foot long bank in a -- really bank in a vehicle. You can do anything in this vehicle that you could do any branch. So we actually service nine communities with just one unit, and we're actually looking at -- we call it the Gelt bus, and we're looking at building Gelt Bus 2 to figure out if we can do it a little bit bigger and a little bit better, and to get to some of those areas, because I have calls all the time, when are you coming to my area.

So we're trying to get to those areas, the people that are really underbanked and some really don't have bank accounts at all, and they're waiting for that community bank to move into the area. So we are working on that. We are lucky to be in an area of really unprecedented employment.

I mean we don't -- unemployment for us is really not an issue. One of the Board members on our board builds sheds, and he basically said he's been advertising for a year to hire people and he's unable to hire people. So you know, we're really in an industry and an area that is very strong.

We also have dairy. Dairy's been hit hard these past three years. Milk margins and the co-ops are moving in, and they're creating issues on the dairy side. Unfortunately, we've lost some dairies. They've sold the cows, and they've sold the farms that have been in families for many generations. So we have seen some of that.

Luckily, it hasn't affected our loan quality. We haven't had loans to those certain dairies. But it is something to consider. I mean it is really a core staple in the farming industry, and I think we've seen deterioration there. As far as loan growth, again loan growth in our area is strong. We don't market. We don't really need to.

The Amish and the English in the area come to us. You know, we've had instances where we've had to pull loan growth back because we were worried about capital constraints. So we raised capital last year. We raised 20 million.

So that freed us up again to lend to some of these people that have been on the list. The Amish, you know, they really are looking for a lender.

They have certain issues relative to getting a loan, especially residential loans, you know. They're in communities where there's not necessarily electric. So they're non-conforming properties. We can't make a loan and sell it in the secondary market. So that was actually really a whole demographic and group of people that would probably not have been in a home had the bank not been created.

So we're over 30 million in loans just to that particular sector of the community. So you know, those are big numbers. When you're a young couple and you're not able to get a mortgage, and the big banks don't want to do it, you know, for us it wasn't even really something that was in our original business plan, but yet it filled a tremendous need.

So we're happy that we've been able to do that. In our area, again based on our community and the people that make it up, we have no delinquencies. We've had no charge-offs. We're actually approaching -- Year 6 will be December of -- the end of this year, December of 2019 we'll be in business six years.

So you know, the loan quality's good. The Amish, if there's default they actually help each other. There's a whole process to it that most of us don't realize, and you don't really realize it until you get involved. But it is amazing, you know. It is -- you're in the heart of Amish country, the old order Amish. They travel by horse and buggy. So travel for them is incredibly slow.

So we've learned to cater to them and really give them what they need, be it a loan. Do you need us to come and have you sign the loan papers at your kitchen table? And I think that's kind of what differentiates us from the bigger banks whereas, you know, there's levels of approvals at the larger banks and even regional banks. We haven't had that. That has not been an issue for us.

As far as -- one issue that I wanted to, relative to regulatory issues, the flood insurance. So you know, Amish have the Amish Aid, and I know the FDIC still -- I know there was some information put out July 1st. But I think for us we still haven't been able to utilize Amish Aid relative to the flood policies.

So we're kind of looking for some guidance whether it be, is it on a case-by-case basis or how do we handle that, because we actually had one loan in July after July 1st, and we were not able to use the Amish Aid at this point because we didn't feel there was sufficient guidance. We have one additional loan coming up in August with the same circumstances.

So we did secure traditional flood insurance, but the Amish are really looking for that. That's really important for them to have, to be able to use those policies. They use it for many things, they have their own health policies. So it really is a different demographic, and they use those policies really without loss.

One thing about the exam process, we were lucky to have an exam this year before the summer came, and I'll have to tell you it was probably -- and I've been in banking a long time -- probably the best, most excellent process as far as what I've ever seen.

I think the preplanning was terrific and the communication. We provided everything in advance. I think the onsite management process was great, and I think after the exam concluded I think there was good communication. All of the issues were brought to the table. There were issues that we were given advice proactively.

So you know, I can't really say enough about the people that ran the exam. They were -- it was varying degrees of experience, but it ran really, really well. It was very streamlined. So I credit the FDIC. I think that you're doing a great job on those initiatives.

A couple of last things. I'm glad to see de novo activity continues to increase. I think, you know, if you look at our bank, you know, hopefully we're kind of the poster child for confidence that, you know, small community de novo banks do fill a need. I think we've proved that, and I think community banks are alive and well. So I'm hoping that we will continue to see that trend. Thank you.

MEMBER SHETTLESWORTH: Hi, good morning. Alan Shettlesworth. I'm the president and chief operating officer of Main Bank. We're located in Albuquerque, New Mexico. We have one location, and I am very pleased to report that since our last meeting we have made one additional hire, which brings us to a whopping 15 employees. So that is a small bank, ladies and gentlemen.

We are also increased a little bit in assets, so that's about 160 million in total assets. We do mostly commercial and commercial real estate-related transactions focused on small business. Not a lot of consumer activity. I would say that the conditions right now are eerily good.

It's just a bizarre environment and I hope I'm not jinxing it, but just everything seems to be working. There's a lot of strong demand out there. I don't remember the last time I've seen an appraisal negatively impact any loan transaction, which I guess is good and bad right now. But everything, everyone is current with us right now.

The two problems that I would say we have at the bank are both under contract. One's closing this week to be sold, and the other one's closing at the end of the month or the first week of September. That's just a bizarre environment when your problems are being swept up by the market and they're -- both loans are current.

So it's just a weird environment. It feels like 2005 and '06 and '07, and in some cases that there's -- I don't, I can't tell where the overheating is right now and I don't really think there is. It just seems like a slow recovery. So I'm hopeful for Albuquerque, New Mexico's standpoint that this recovery continues because it feels like we're just finally getting out of the recovery, or just finally getting out of it and having some positive momentum for us.

The only real negative thing that I've seen, and I've seen this more than once and on a small scale, but it was on the non-profit side. A lot of non-profits in New Mexico. We are a fairly poor state, a lot of poverty. I think a lot of -- the common thing I've seen is United Way is a big -- they spread a lot of funds.

They're big -- they collect a lot of funds throughout the state, and they also disperse a lot of funds. I've heard more than once now that either they've changed their policy in New Mexico or that they have lost a federal grant or some money that will help kind of over, I guess, pay for their operating costs.

So we're starting to see that impact on some of our non-profits. We've actually had to come in on a couple of cases and kind of redo their loan transactions for them, give them some relief, give them some working capital. So hopefully that's just a short-term deal, but that's about the only real concern that I've got.

We're getting ready for an FDIC exam, safety and soundness at the end of September, and they contacted us like two weeks ago and were already letting us, you know, here's the reports that we're going to be looking at. So we really appreciated that effort of reaching out to us early on, so that we can start working on it because with 15 employees, you know, gathering those reports does take a lot of time.

But everything honestly right now is just fine, really good.

MEMBER TURNER: My name is Joe Turner, and I'm president and CEO of Great Southern Bank. We have 4.9 billion in assets. We have 98 retail banking centers located from Minneapolis-St. Paul area on the north down to northwest Arkansas, Rogers, Arkansas, on the south. We also have loan production offices in Denver; Atlanta; Dallas; Tulsa; Omaha, Nebraska; and Chicago, Illinois.

And just like everybody I think our, you know, asset quality’s at record good levels. Competition seems to be heating up to me, and you know, I don't know exactly what's going on when we had our earnings call. A couple of weeks ago I said that our loan pipeline, you know, what's on the books and sort of recorded, is still really strong. But it feels like maybe we're getting to a bit of an inflection point.

Competition does seem to be heating up. Spreads seem to be constricting a little bit. Maybe banks are starting to relax structure a little bit. So I don't know. I kind of agree with the comment. It feels like 2005-2006 and that's when all the bad loans were made or a lot of the bad loans were made that led to the problems in 2008.

You know, I worry that maybe that could be the case. We're not seeing evidence.

We're not seeing the credit evidence of that. It's just, it's sort of -- it feels that way to me a bit. You know, on the regulatory side, the marijuana issue has caused more consternation than I ever dreamed it would.

Missouri passed medical marijuana in November, and we get constant calls from customers about that, and it's really creating a problem. It's a creating a problem between our BSA folks and, you know, for instance our lenders. Our lenders will have maybe a retail customer who wants to lease to a medical marijuana dispensary, and our BSA folks are saying no, you know, because I think that's the law. It's just creating -- it's creating a lot of problem and a lot of consternation out there.

We continue to work on CECL. We aren’t one of the fortunate banks that will have that delayed I think. We'll be responsible for having that implemented in January of 2020. So we continue to work on that. We're also interested in the continued, and appreciate the continued discussion on the brokered deposit issue.

I think the FDIC is -- I'm glad that they're taking a hard look at brokered deposit issues and specifically the national rate cap. That's all I have. Thank you.

MEMBER PAINE: Joe, that came up a little quick. Hi, I'm Tiffany Paine from Security Bank in Bemidji, Minnesota. I am a fourth-generation banker. The fifth generation is now currently working in our Mortgage Department. Very excited about that. We're 150 million. We manage another 120 in Freddie Macs, we service those.

We lead another 30 in participations. We specialize in commercial, commercial real estate and mortgage. We've seen really strong loan demand, but it is starting to wane. Our town is about, proper, it's 14,000 people, about 50,000 in the surrounding areas, and we have ten financial institutions, two credit unions, two locally owned banks. The others came from North

Dakota and other areas.

So the local competition is pretty strong, pretty stiff, both on the deposit and the loan side. There's some curious people locking in long rates for both loans and deposits. I'm not sure exactly how subprime lending is going to work out for them in the end, but it's not a place that we go to.

We work a lot with the SBA. We work a lot with Freddie Mac and Rural Development. The demand is high for our real estate area, as far as we need inventory in town. But building costs are very high right now. So it is a challenge that we've also had demand for multi-family homes and living.

Because this is our busy time, we see our title companies and our appraisers really stretched thin, as I'm sure most people do, but you have limited access in rural communities to some of those, especially in the specialties with the commercial. We see more small community banks opting not to do in-house mortgages. It's just really complex and as they have people retire and don't have the specialty in-house, they're looking for other options.

We actually are helping some other community banks by underwriting their loans and putting those on the books and working as a referral service. We started sharing our services with the audit and compliance area and felt like this is a natural progression because we have the expertise in-house to be able to work with those.

We have had in the last year our safety and soundness, and then we got our compliance and our five-year CRA. So we've had all of our examinations, and I believe the first time I met Doreen, I had said we have great crews. Honestly, we have really good crews out of the Fargo and Grand Forks area.

The process has gone really well for us. The pre-notification is invaluable. As you mentioned Alan, when you have limited staff, it takes a little while to gather that information.

So that really, really helps us, and we sure do appreciate that.

The flavor of examinations has changed over the last ten years, pretty dramatically since, you know, 2007, '08, and it has become very collaborative. I would like to personally thank everybody here for working through that process. That's, I think, been beneficial for both sides.

We're in a growing community. Things are looking really well. We are being very cognizant of our underwriting because again, as Alan and Joe mentioned, it's going well. So let's be cautious, and let's be aware of what's going on out there. Thank you.

MEMBER HANRAHAN: Good morning, everybody. I'm Dave Hanrahan. I'll just make two observations this morning. The first is I'm glad to see that on this afternoon's agenda is the Money Smart education material topic. That's a subject close to my heart. I've served on the ABA's Foundation Board for about three years, which deals in part with financial literacy and specifically elder fraud and elder exploitation is something that I continue to see more and more of.

Now I am from New Jersey, but I bet you it's a nationwide thing, not only in our great state. Seriously, it's a tragic subject that we see so many elders exploited, and often exploited by the people closest to them, the people appointed to care for them or in trust for them. It's a subject that I think bankers and regulators are -- should be built to collaborate on.

As a matter of fact, I talked to Corey Carlisle at the ABA, and he was very, very complimentary of the FDIC's material and the way that the Corporation works with the trade associations on the subject. So I'm looking forward to hearing more about that material later this afternoon.

The second thing I'll comment on, and I know I sound like a broken record, is the national rate cap subject. As Tom and as Joe made reference to earlier, I'm grateful that the FDIC is doing work on this. I found it very helpful that Lisa Roy attached in the emails in preparation for this meeting a link to all the comment letters that came in.

I didn't read them all; I read a fraction of them, but there sure seemed to be a common theme to the need for a formulaic fix to the national rate cap and I'm very much looking forward to hearing more about that.

MEMBER DAKRI: Good morning. My name's Asif Dakri. I am the CEO of Wallis Bank. Wallis Bank is a $750 million community bank. We have locations in three states and in five major metro areas. We're located in California, Texas, and now as of last month, Georgia.

I'll start with the California markets. We’re in Southern California, the LA market specifically, it's a hot market. Real estate wise, housing is in great, great shortage there. There's a big issue with the affordability of housing in the LA market. We're seeing a lot of people go further and further out, kind of what happened I guess back in 2006 and '07, a similar type of the process that's going on there right now.

We're seeing a lot of infill homes, where people are buying older homes, tearing them down and converting them into multi-family condos and what-not, trying to get some type of housing in the cities themselves.

The labor market in California is very tight. There's a lot of -- the same thing I think is going on actually everywhere in the country, where you see unemployment at record lows. You see a big fight for people. I think in the banking world, there too we're seeing a lot of issues trying to hire people. Everyone's looking for the same type of people.

In the Texas markets, we're in San Antonio, Houston, and Dallas. I'll start with Dallas. Dallas is an extremely hot market right now. They've had an influx of corporates moving, you know. You might have heard that Toyota moved from California into Dallas. We've had other corporates move also into the Dallas market.

That's created another housing shortage, if you will there, and a dramatic rise in real estate pricing, both on the commercial side and on the residential side. Again, a very tight labor market in the Dallas area, and everything seems to be moving in the right direction for them. But we'll see how it goes as we see some inflationary pressures hitting that area.

San Antonio, again a very similar thing that we're seeing in Dallas also in LA. Tight labor markets. Unemployment's very, very low there. Real estate is doing very well. We've seen retail there at historical lows in terms of vacancies. They're at two and a half percent vacancies in the retail markets there. We do see a lot of influx of money coming through.

San Antonio, being close to the Mexican border, has a lot of influence with what goes on in Mexico. The thought process right now is a new government in Mexico that there's potential for additional money coming over the border into the U.S. As people are fleeing, well, the wealthy are getting a little bit nervous and fleeing some of the areas in Mexico and putting their assets into the U.S.

The Houston market continues to rebound from our 2014 oil and gas issues that we had. The market is strong. We have some weaknesses in the office market still. A lot of that construction that was done in the end of '14, beginning of '15, was related to oil and gas corporations and that market really hasn't recovered. They're still hovering I believe somewhere in the 17 and 19 percent vacancy rate in the office market.

The other weakness we see in Houston right now is hospitality. I think there was a mention of hospitality earlier. A little bit overdeveloped right now. So you know, I'm not seeing much in terms of new construction in the hospitality market as we try to absorb what's been built in the last several years.

Industrial is doing very strong actually across the board in Texas. I think the Amazon effect is really hitting everybody, and industrial continues to grow, and it continues to build and absorb.

Atlanta, we just started Atlanta last month. Again, another hot market. I think labor issues there also in terms of finding the right people and we see wage pressures also. The market is good though. I guess overall, all of our locations, the market seems to be doing well as everyone else has said here, and we see that, you know, knock on wood, we hope that continues.

From a banking perspective, again competition is strong. Loan pricing, as was mentioned earlier, also is we're seeing some interesting pricing going on, people going longer for lower rates. We see on the deposit end some of the markets, specifically Atlanta, we're in the 2.8 percent range for CDs which we found kind of interesting. Very high what I believe in today's market.

We see a lot of consolidation going on. I've seen recently a real flurry of activity on banks willing to sell, and I think that's directly related to deposits. There's a battle for deposits going on.

We feel it and I think a lot of the other community banks feel it, and what I'm seeing now are the banks that have good stable deposits are looking to sell, because I believe there's a market for them right now.

From a regulatory standpoint, we had an exam earlier this year. The exam went very, very well. I compliment FDIC for doing a good job of trying to modernize and get us to where we need to be. I think my only constructive criticism would be that you probably need more examiners. We found a little bit of an issue on timing, as the examiners were pulled to other jobs as they were on ours.

So it took a little bit longer than

maybe they were anticipating, but you know, you're part of the same labor markets that we are. So --

CHAIRMAN MCWILLIAMS: You take my examiners.

(Laughter.)

MEMBER DANNY KELLY: Most examiners should know better than to get in the banking business, but we are -- I'm Danny Kelly. I'm the CEO of Hometown Bank in Oneonta, Alabama. We're a $375 million very traditional community bank. We fund our balance sheet primarily with deposits and make loans to individuals and small businesses. We were one of those banks that chose to go lower longer, about seven and a half years ago.

We of course keep a close eye and monitor those loans and average life on those things is 6.7 years, so we're in the money and have been in the money, and it looks like we're going to stay in the money at least for the short term. So again, very traditional.

From an economic perspective, we have a very diversified workforce. Most of our folks work in Birmingham or other areas. I don't know how much of this in the national news, but the automotive business is big in Alabama. We build most of the vehicles you see, and most of the parts for those vehicles. So now they've become more universal. You can make a part for a Honda that fits a Toyota and those kind of things. So again, we've grown.

The other option, and we've all talked about the need for workforce, and that's something that the state of Alabama spent a lot of time and money on in developing that, and now we're seeing federal programs that are dumping money into that area where, you know, underemployed or people that need the training can get it, non-certificate training.

That's a positive thing and something that every rural area, I think to speak to the rural issues, need to have a focus on because that is an opportunity. Those folks that are undertrained, if they can just get up-trained a bit there's a real demand for those skills in those.

We haven't really as a country or whatever, we haven't really put a lot of focus on, you know, just a skilled person or a skilled workforce without the need for a four-year college education. So that's something that we're seeing in the state of Alabama from a positive perspective is that concentration.

Again, the only concern from a financial or from an economic perspective for us that I'm seeing is the acceptance of much lower cap rates from rental people, you know, the guys doing the commercial rentals, even the residential rentals.

We've seen a lot of large transactions recently where, say, for instance, Encompass Health, which is one of the larger hospital owners in the country, sold their headquarters for 75 million bucks to some investment group, which is probably tied back to some private equity, and the cap rate on that was about four and a half percent.

So to me that's just extraordinarily low, and that's something that we should be concerned about. Maybe this is just old school, but I'm a big -- I like to look at that cap rate to tell me how much risk our folks are willing to take, for how much little they're willing to take in return. We certainly measure it at the bank level, and I think that you need to be paying attention to that from what's happening with money flows.

The big thing I think too that from a regulatory perspective, that is the change in our funding portfolio, you know, the mix, the portfolio mix and the funding. I know you've probably all looked at it, but if you could take it back ten years and see what that change has been, how much more has gone into the transactional type of accounts versus what we used to have in CDs or term-type deposits.

You know, we get a lot of scrutiny for

liquidity. I understand that. I absolutely know liquidity is like the match, you know. You know the old saying about that. It goes away pretty quickly. So but I do wish there was more consistent measurement on that mix, and understand that some of these, what would -- traditionally what we would call hot money is not hot anymore.

And it's been -- I mean in our case, we have some transactional accounts that's been on the books for 10 or 15 years, and in our opinion they're, you know, they're core, and they're not at all hot and anything that we need to be concerned.

They're not volatile. I think that's one -- the same term they use. So from a regulatory perspective, I think there needs to be some consistency in how you look at that change, because ten years is pretty well a pattern, going away from the more term deposits. That's really all I have. Thank you.

MEMBER WILLIAMS: I'm Len Williams

with People's Intermountain Bank located just south of Salt Lake, about 40 miles south of Salt Lake in Utah County. We're a $2.3 billion community bank publicly held. We've got 26 locations and have been around for 115 years.

Utah economy has been strong. As a matter of fact, a recent fact I read, the Utah economy is the state that most closely mirrors the United States economy, as it compares the different types of industry. We've got some ag, we've got some tech, we've got some government. There's just a pretty broad base of industry in the market.

Like everyone else I've heard today, we're still benefitting from low unemployment. We're also in a location that has pretty strong in-migration. With the expense in the Silicon Valley and some of the areas in California, it's a pretty easy move to Utah, and over the past couple of years the growth in the tech industry has been the strongest sector in our market. As a matter of fact, Facebook has built a huge center there. Adobe's got their second largest location there.

Amazon has built a couple of warehouses there now. It continues to be a pretty easy place to do business, which has been great for us. It's also, it's been a great year weather-wise. I don't know if you saw on the news, but Snowbird was actually open for skiing on the 4th of July this year, when it was 90 degrees, which is not the world's best snow but an interesting time to be in it.

The banking industry in the state also is relatively robust. Utah is one of the states that not only allows but encourages the industrial loan companies, and there's been an onslaught and a lot of new applications. I'm sure you've seen with the FDIC coming through in that arena, and they're accepted well.

It also brings a lot of banking talent into the market, particularly at the higher level where we continue to struggle is finding loan officers at a reasonable price. As far as our organization, again I just mirror the rest of the group. Asset quality's been good. It's having been in the business for 42 years, like many, and I've mentioned before, it just feels like it can't be this good that much longer.

So through that process, what have we seen here in the last couple of years? Again, I'll quote some of the others. Rates are down, margins are down, terms are longer, and structure is looser, which always makes me a little bit nervous. We don't tend to play the structure game.

We do have high enough net interest margin where we've gotten a lot more competitive on the rates, and we've got, our total loan portfolio’s tenor is 1.2 years. So a little bit of lengthening that hasn't hurt us on some of the terms that we've done as well.

The last, really the last year, we've been in times of strong credit we've been fortifying the balance sheet, to the point -- and it surprises me a little that we haven't seen a lot of other banks building their ALLLs in these times. We've actually built ours to 1.8 percent, and we're carrying about 12-1/2 percent capital but still getting a two percent ROA and 14-1/2 percent ROE.

So you know, kind of the belief is while the earnings are strong, while the times are good, we want to continue to fortify that balance sheet to be more in an acquisition position when things start to turn a little bit.

So that's a little bit knock on wood. It's been a good market. It still looks good, but just being the conservative nature that most bankers are, we've been trying to fortify things in the good times.

MEMBER KENNETH KELLY: Thanks, Len. Good morning, everyone. My name is Kenneth Kelly. I serve as Chairman and CEO of First Independence Bank based in Detroit, Michigan. I'd like to talk today about a couple of things. One, our bank; secondly, the economy and some of the challenges that we're seeing at the National

Bankers Association.

So our bank is actually 49 years old serving in Detroit, predominantly commercial based, commercial real estate. We do some mortgages and we do some equipment leasing in the commercial space. So that's the brunt of our business model.

We're seeing the economy move consistently, as everyone has stated, very steadily. We have started to see some pullback in terms of payments from a timeliness perspective that is creating some concern.

Those have been paid in most cases on time, but we're seeing the acknowledgment that things are starting to slow. So we've acknowledged that and wanted to speak to that. So I'll piggyback on your comment just a moment ago regarding ALLL.

Like any conservative banker, we'd like to have as much, I'll use the term hay in the barn as possible. But given some of the constraints around the formulation of doing that, it's creating some challenges because we just don't have the capacity to put all of that, if you will, hay in the barn.

So given -- and let me just be specific on that. The ability to put the hay in the barn is based on the formula of your last three years or so. So we've seen historic lows as it relates to payments being late, and that is being a little bit problematic because we are concerned that once the hockey stick turns up, we will not have the time to catch up if that makes sense to you regarding that. So I appreciate you bringing that up.

I'll try not to go over too many of the other topics that have been covered, but there are a couple that I do want to bring up, and I see those on the agenda. Chairwoman, I appreciate your leadership in leading in these areas.

Opportunity Zones, CECL has been talked about. That is a concern of some of our members at the National Bankers Association and then the Ombudsman, I know he's going to give a presentation today. We'd like to have some interactive dialogue on that topic.

Madam Chair, I would like to tell you in front of this body, thank you so much for your support in what you're doing as it relates to minority depository institutions. The report that's been presented to us as a body today I think is a testament to the FDIC's commitment to ensure and promote minority depository institutions across the country.

One of the other items I'd like to bring up we see as a threat that we need to keep our eye on is technology. You saw the headlines I think maybe yesterday regarding the Chase and OnDeck, I'll call it feud or at least the breaking up of their relationship and OnDeck's immediate response was we're going to either seek a bank charter or we're going to go buy a bank.

The reason I bring that up is it's been mentioned in several of the comments of my peers here the need to compete for deposits.

We're seeing the technology companies being able to go out and make a play in this space in a way that we can't as it relates to being able to raise capital, et cetera.

So I bring that comment up because we think that there has to be some regulatory guidance on what's happening as it relates to the logistics of money in the economy. So I want to make a point of making note of that. As it relates to financial literacy, one of the topics listed here, we think that is a key component to combating the unbanked.

We know this body has led the effort around the country, looking at the unbanked. In Detroit, we have in particular about a little bit over average, higher unbanked population, and we're seeing that not only are those individuals unbanked but what's happening in the logistics of money is people are moving to more of a debit card for their paycheck.

And while that may become a trend that does move forward, we believe that it keeps individuals away from the banking system in a scenario that we want to figure out how to address.

The last comment I wanted to make is just regarding some of the compression that we're seeing. Rates, I think you may have mentioned 2.8 percent on CDs. We're seeing a lifting on the bottom that basically I'll use this as a metaphor. There were individuals who were receiving 25 basis points that are now calling and asking for 2 or 2.2 as a rate of return.

So we're seeing some compression on the bottom, along with the competition on the top side, where rates and banks are having to compete for loans going forward to keep forth with growth. So those are signs that we believe that may be showing a little bit of a slowing in the market, and I just want to share those with this body. Thank you.

MEMBER DONNELLY: Good morning. I'm Chris Donnelly. I'm president and CEO of the Bank of the Prairie in Olathe, Kansas. We are a southwest suburb of Kansas City metro. Echo to most, the economy seems to be really well in Kansas City. It's balanced to small business. 95 percent of our business is small business, and they continue to see a lot of work, a lot of opportunities.

Their margins aren't as good as they were two or three years ago. They have a lot of volume, so it's a little bit of a compression in their margins. Our biggest issue is deposits. We continue to see large credit unions taking deposits, paying a lot higher rates than we're paying. We're seeing a lot of competition from bigger banks taking deposits.

I think that the conversation on the rate cap is really an important one. The rate cap list was out last week, and I'd probably lose in each category even with the top -- adding 75 basis points to it. One thing I would like to address, I think Jim addressed rural communities, and as Chairman of the Kansas Bankers Association I had the opportunity last week to visit 16 banks in Southeast Kansas.

The largest bank was about 1.2 billion; the smallest was 30 million. The smallest community I was in was 302 people, and those banks, those are all community banks. They all serve their community. That will be in most cases the only financial institution in that community.

Some of the concerning things that came out, and I did -- I swore to them that I would share this is that they're seeing a lot of their rural housing market dry up and the houses that used to be owned by local rural people are now being turned into rentals and those people are renting instead of buying.

That's a really difficult thing for Kansas because 95 percent of the state is rural. It's the difficulty in the home mortgage lending and making proper mortgage loan documentation, the cost they're seeing that. So that was concerning because I heard that from more than just one of those 16 bankers.

They're trying to help their community survive, and in Kansas as small communities lose population, those communities dry up and go away and those banks go away after that. So anyways, that's just an issue that I wanted to share with the group, that we seem to have significant problems in rural Kansas maintaining population and maintaining reasons for people to be there.

The more difficult it is for the local lenders, local community banks to provide products, the more difficult it is for that community to survive. So I'll yield the rest of my time.

MEMBER EPSTEIN: Good morning. It's a real pleasure to be here. Keith Epstein for Roxboro Savings Bank. We're located in Person County, North Carolina. Person County is the county directly north of Durham County. We are part of the Durham-Chapel Hill MSA and we're sort of uniquely positioned in that we have customers in the metropolitan Durham area who are experiencing rapid growth. Just the demographic is very different.

We have rural customers in Person County and to the north of us up to the Virginia state line, and then we have folks in Durham and Chapel Hill who are more affluent. There's really tremendous growth in that market, perhaps unsustainable. We are financing a number of rehabilitation projects and single-family home rehab in downtown Durham. There's a lot of gentrification that's going on and short term we're benefitting from that because of the opportunity to finance some of these projects.

Long term we may be benefit because as gentrification takes hold, folks are priced out of Durham and they will likely move, you know, north into the surrounding counties. So that could be to our benefit, but we also understand that gentrification can breed some long-term issues, and some of you around the table may be contending with those in your market.

I think Louise is not here at the moment, but I think affordable housing is a concern that she expressed at the last meeting, and we're certainly starting to see that in some parts of our market. We are primarily a housing lender. We have as a niche working with individual homeowners on construction loans, and we have the following of a number of low-volume custom homebuilders who appreciate the chance to have a relationship with a lender who understands their needs in terms of issuing draws and doing inspections and so forth.

Those customers demand a high touch. We try to cater to customers that are service-sensitive more so than price-sensitive. We don't always have that luxury, but that's where we think we can shine.

The local housing market is terrific. The health can be measured by 7.8 percent and 5.7 percent increases in median sales price year over year in Durham and the greater Triangle region respectively according to the May 2019 numbers produced by the Durham Regional Association of Realtors.

I might add that that is growth on top of similar rates of growth for at least the last three years. I don't have that data, but it has continued to be strong in the housing area. We've seen population growth, we've seen migration in from other parts of the state and we're fortunate.

That being said, this is an opportunity that we have taken to reaffirm our commitment to being a disciplined lender. There are a lot of loan opportunities and there is no need to stretch, and we're constantly reminding each other of that and asking our board to be mindful of adherence to policy, so that we can be a strong bank when the next recession hits. We're hoping that that won't be any time soon.

We're really not seeing any indicators that it's on the horizon, but we know it's out there somewhere.

One thing that's affecting our rural markets is a real transition from of course North Carolina's known for its tobacco farming.

There's a transition occurring from tobacco farming to hemp farming, and I know that this -- Bruce and I were discussing this last night, some similarities with what's transpiring in the agricultural market in Kentucky and other parts of the country.

We're seeing an influx of money from out of state purchasing land either to grow hemp or with the intent to grow hemp in the next season. We're also seeing some infrastructure investments in warehouse space for distribution, greenhouse space. As a matter of fact, the North Carolina Agriculture Commissioner recently released some statistics.

Over the last 24 months dating back to 2017 when there were 2,200 acres and 242,000 square feet of greenhouse space, in just that short period of time now have 8,000 acres and 3.4 million square feet of climate-controlled enclosures designated for the hemp industry. Cannabis is not legally permitted in North Carolina to grow or for medical or certainly recreational use.

But we are optimistic as we look out into the second half of this year and into 2020. We are confident that the economy will remain strong. I mentioned our construction lending. A number of the borrowers whom we are building for have homes that they will be selling when their new home is complete, and we take that as a sign that they have confidence at least into the medium term of continued strength in the housing market specifically, but the regional economy in general.

On a number of homes we're fortunate. We have a real precious asset in our county, a beautiful lake, Hyco Lake, and there are no large subdivisions there. But there are a number of nicer homes and we're seeing a lot of second homes being built and future retirement homes and so forth. The fact that there's such activity there speaks volumes to us, that people do have confidence in where our economy is headed.

Of course the strong economy presents

some challenges. Like everyone else around this table, we are having difficulty finding talent. There are fewer and fewer community banks because of the consolidation that's occurred over the last decade, and so we are going to have to develop the talent we have determined as others have said.

We'd like to commend the FDIC. We just had a CRA and compliance exam. That was a very constructive, positive exercise and the EIC really took great pains to educate us as to, you know, how they formulate the scope of the exam, how they make their determination, which ratios they just have to adhere to that are a part of the process, and then where there is some discretion that they can apply once they have a more lengthy interview with the management team and understand where we are employing our resources for the benefit of our community.

Out of those conversations, we as a bank have some ideas and would welcome a chance in public or private to share some of those as the discussions around CRA modernization continue. We had a safety and soundness exam back in October, and likewise it was constructive. We really had some great suggestions in terms of our succession planning and our cross-training.

We're a small organization. We have 30 employees, so cross-training is an issue. We have certain people that can do certain things. They do them well, they've done them for a long time. But if they are out for any extended period of time the rest of us would be scrambling, and have a renewed appreciation for that person's importance within the organization.

So the FDIC gave us some really good ideas as to how to expand upon our succession planning. We spent a great deal of time in our strategic planning session trying to implement some of those ideas, and we feel like we're probably a stronger organization long term as a result.

Lastly if I may, one concern that we

do have, it's a growing concern. It's been growing for a long time. There are fewer community banks that we have to compete with, and we offer something different than the regional and national banks. We have a niche, and we're grateful and we think we make a meaningful contribution to the local economy as a result.

But filling the void seems to be the proliferation of credit unions, who are more or less operating as community banks doing small business lending and so forth. This point was really driven home just last week when the NCUA increased the threshold of which the qualified business loans, commercial real estate loans can be issued by credit unions, now up to a million dollars per transaction.

Not aggregate exposure, but per transaction, up to a million dollars without an appraisal. So of course our specific concern is I'm requiring appraisals for those transactions. They're costing in our market about $2,500 if you have a MIA-designated appraiser complete the report.

The report takes about three weeks from order to delivery. So I will now be not only challenged to be competitive on price because I don't have the tax subsidy, but now my third-party transaction costs are going to be greater and the time from origination to closure is going to be greater. That's a real concern, and while I wouldn't expect the NCUA to be terribly sympathetic to our competitive concerns, I would hope that they would be, maybe have a little bit greater awareness of some of the history of the financial institutions in our country.

It's not quite an apples-to-apples comparison, but one time the savings and loans, who had very little commercial real estate experience, were encouraged to dive head first into that market, and the results were a bit disastrous. I can't help but think that the credit unions are not as well prepared as community banks and commercial banks would be to issue business loans secured by commercial real estate.

Yet they're able to do so relying almost exclusively on their internal expertise. That just puzzles me a little bit. I appreciate you allowing me to mention that. So things are good and we're grateful for the chance to express ourselves in this forum, and Chairman, you thanked us all for our participation and we want to thank you for not just your willingness to listen but your enthusiasm for listening. We appreciate it.

MEMBER DIBIASI: Good morning. I'm Fred DiBiasi, president and CEO of American Savings Bank in Middletown, Ohio. It's certainly a privilege to be here today. I don't want to spend a lot of time reiterating what has already been said, but I do want to touch on a few things. Our bank is 44 million in assets. We are certainly I would imagine the smallest bank represented here by a long shot.

Alan to your point, you mentioned 15

employees. We have ten, so I don't know how you're running so inefficiently but maybe we can talk a little bit afterwards.

(Laughter.)

MEMBER DIBIASI: With that being said, we're in southwestern Ohio, equidistance between Cincinnati and Dayton. Just to give you an idea of what we've been through, it's hard to believe it's been ten years.

We're a rust belt, traditional rust belt community and ten years ago *Forbes Magazine* listed Middletown as one of the ten fastest dying cities in America. I'm pleased to report today, ten years later, the funeral hasn't happened yet and we still very much have a pulse and we're alive and well, and I'm proud to say that.

I'm not going to get into a lot of the strategies we employed to improve. Obviously some of it's been a rising tide. But at the same time, you know, we're a proud community that just refused to believe in that designation.

I know one of the tools that was made

available to us that we did take advantage of a land bank that was formed in our county, and through the Countrywide settlement that came through the Attorney General's Office and now Governor Mike DeWine we were able to take advantage of some of that funding, and we were able to eliminate over 400 blighted and tired housing stock in our community, which certainly helped.

You know, fast forward today. You know, demand for housing for the first time since the Great Recession is finally exceeding the supply, you know. At all price points, it's difficult now to find housing in our community. Any house at any, in practically all neighborhoods stay on the market less than a month. They're moving at a rapid pace and being absorbed quickly.

So that's certainly encouraging. I know, you know again, not to touch on anything, but delinquency at our institution is at an all-time low. It certainly makes it nice to come to work every morning, you know. We are not dealing with asset quality issues and delinquency. It seems like all other challenges seem to be a lot more manageable when you're not fighting, you know, asset quality issues.

So we're happy about that. On the flip side, you know, 44 million is still 44 million and, you know, we found long term, given just the environment in general it's just difficult, relevant and to sustain that indefinitely. So we made a decision, it's been a long process in the making, that we're in the process of merging with another community bank in our county.

While it pains me to lose a banking charter, we felt that long term, you know, this was the best thing for our community, our depositors, our customers, our employees and we feel -- again it was a slow process. We were very deliberate about it. It was about four years in the works, and we're not quite there yet but we're getting close. We feel that it's --

when there are opportunities for like-minded institutions with similar philosophies, we're both mutual organizations and we feel like just bringing some scale into the equation just had to be done long term.

We tried to be a little more forward-thinking than just, you know, we didn't have to do anything today. But you know, ten years from now I think if we look back, I think we're going to be pleased that we did -- at least that's the hope anyway. So with that being said, you know again I'm going to be, wrap up my comments.

Again, very privileged to be here and grateful for the opportunity to speak to this group and tell our story a little bit. So thank you.

MEMBER BESHEAR: I guess I'm the last one. I'll be brief. Chairman MCWILLIAMS, thank you very much for having us here. I also want to recognize our State Bank Commissioner Mick Thompson, who just started a safety and soundness exam at my institution on Monday. So you're doing a great job Mick.

(Laughter.)

MEMBER BESHEAR: I don't want to rehash what has been said here. One of the areas that I wanted to talk about is we're a recently certified minority depository institution. I have not had a chance to read the booklet that we've got here, but I'm very interested in hearing about our speaker here later on today.

One of the issues as being a recently certified MDI is collaboration with other banks, and how we go about recognizing that collaboration and what sort of credit do they really get for that collaboration. Another thing that was spoken to earlier was we're looking for some clarification on some legislation, I guess, for how to bank or whether we can bank medical marijuana businesses.

We're anxious to see that occur, and we're also, like everybody else here, seeing a lot of competition in the Oklahoma City market, that is basically increasing rates on deposits and basically decreasing the rates we're able to quote on loans. So our spreads are being compressed. So with that being said, I'll finish. Thank you, Chairman.

MR. DAVIS: Great, and with that it's currently about 10:25. We've got a break coming up, let's call it a ten-minute break. Reconvene at 10:35. Thank you.

(Whereupon, the above-entitled matter went off the record at 10:22 a.m. and resumed at 10:36 a.m.)

MR. DAVIS: Okay. If folks could make their way back to their seats, we'll get started with the next panel.

(Pause.)

MR. DAVIS: Okay. We're going to now provide the Committee with an update on several supervisory issues. From our Division of Risk Management Supervision, we have Doreen Eberley, the director; Rae-Ann Miller, an associate director who oversees the risk management policy; Robert Storch, the FDIC's chief accountant; Ryan

Billingsley, a corporate expert on capital markets; and Martin Henning, Deputy Director of Operational Risk. I'll turn it over to Doreen, who will kick things off.

MS. EBERLEY: Okay. Thanks a lot, Chad. So I think as we've got an order that we're going to go through today. Ryan first is going to talk about the community bank leverage ratio and kind of where we are in that process. Bob's going to cover reduced reporting in Call Reports for certain institutions with assets of less than $5 billion.

Rae-Ann next is going to talk about comments that we received in response to an advanced notice of proposed rulemaking on the brokered deposit and interest rate regulations, and she'll also in the course of that conversation, Danny, hit on the issue that you raised about volatile deposits and the discussion that you may have read in the Report of Examination. So we'll touch on that.

Then Martin is going to review an

interagency statement that was issued last week on risk-focused Bank Secrecy Act and Anti-Money Laundering Supervision and Examinations. Then maybe before we get started, I'll hit real quickly on the other issue that was raised in the last discussion for questions for us on succession planning.

So the direction should be all key employees. So not all employees, but key employees, and we would expect an institution to identify who their key employees are that they need to have that succession planning for. So I wanted to get that question answered for you.

Okay, Ryan.

MR. BILLINGSLEY: All right. Let's talk a little bit about capital. So I'm going to go into the community bank leverage issue in one minute. I want to take a sidestep and talk about a rule that was finalized just early this month actually, what we call the capital simplifications rule. It made some modifications to how you calculate Tier 1.

So remember in 2017 we proposed a rule that would move the threshold for how you deduct mortgage servicing assets, certain DTAs, investments in financial institutions from 10 percent to 25 percent, your so-called threshold deduction amounts. That rule was actually finalized in July and will take effect next year.

So effectively what that means is, for example institutions with concentrations in MSAs, that threshold where they make a deduction will go from 10 percent of common equity to 25 percent of common equity. That will take effect next year.

Separately, there was an aggregate threshold deduction that would happen for those three asset classes. So if you had mortgage servicing assets, certain DTAs, or investments in the capital of unconsolidated financial institutions that in aggregate exceed 15 percent of your common equity, you would also have to take a deduction.

That aggregate threshold was

completely eliminated, so you don't have to worry about that any longer. So you only have to focus on those three asset classes individually, and the threshold was raised -- the threshold for deduction was raised to 25 percent.

So I just wanted to briefly touch on that, because it could have implications for the next thing I'm going to talk about, which is the community bank leverage ratio. So I think a couple of folks who were sitting at the table requested some feedback or some updates on where we are.

I'm afraid I can't give you the answer key, which is probably what you expected. But I can give you some high-level remarks on how the comment process went, how it finished up, and kind of where we are.

So the last time we were together, we were in the middle of the comment process. The proposal went out in February. The comment period ended in early April, and I think I updated you guys and said that at that time, we had about

160 comments received.

Well, we ended up having over 600, which is a pretty healthy number, so thank you if you were one of those, one of those 600. I thought what I would do is bunch those comment letters into some themes that you probably have heard, and things that we're taking on board quite seriously.

So the first one was a strong preference for using existing Tier 1 capital in the numerator of this leverage ratio. For those familiar with the proposal, we proposed to use something simpler, just some sort of a balance sheet driven and a likely number, which is completely different and separate than Tier 1 capital which you're familiar with.

I can say that an overwhelming majority of commenters just preferred that we stick with Tier 1. It's something you understand, something your boards understand, and we hear you loud and clear on that one. The other -- the other two areas of comments that I wanted to raise to your attention that we're taking quite seriously are what I think I can characterize as a fairly strong opposition to the PCA proxies that we introduced in the proposal, and I think we might have had some discussions about this last time as well.

So in the proposal, how it will work is when you drop below a community bank leverage ratio of 9 you have two options. So you could elect to go back to the risk-based system, or you could live in the community bank leverage ratio subject to that, those PCA proxies. So that effectively meant that if you drop below nine, you could be adequately capitalized or you could elect to go back to risk-based.

We got some strong opposition to the PCA proxy idea, with a preference for just let us go back to risk-based and maybe think about a short grace period to do so. So I think that comment was I think received by actually the most people, and we're taking that one on board, considering that as we move forward.

Lastly and probably not surprisingly, one of the comments we received was a strong desire to lower the calibration. So the legislation suggests that we pick a ratio or mandates we pick a ratio between eight and ten. We chose nine, and I think there's a strong preference by commenters to consider eight, something lower than nine.

So those are the -- those are the three big ones we got. We did get comments on some of the criteria to be a qualifying community bank, such as certain concentrations in MSAs and how we calculate the off-balance sheet criteria and things like that, which I think are great comments and very helpful.

But those three I mentioned just now, I think those are the real big ones. We're really focused on those three right now. I can't give you an update as far as timing, but I can tell you it's a front burner issue for us, and I will actually stop there and I'm happy to take any questions, comments, jeers or cheers on community bank leverage ratio.

MEMBER TURNER: Ryan, can you tell us who will qualify? Can you -- I mean specifically what size of bank; how off-balance sheet commitments might affect qualification? Those are the two questions I would have.

MR. BILLINGSLEY: Sure. So the legislation is pretty clear. The size is ten billion and under, which I think is most. When we -- the legislation also says we can create a definition of a quote-unquote qualifying community bank considering certain risk profiles, and you were talking about off-balance sheet commitments.

MEMBER TURNER: Uh-huh.

MR. BILLINGSLEY: So when we formulated the off-balance sheet risk criteria, we said hey, you know. If you're under ten billion and you have off-balance sheet exposures of less than 25 percent of your total assets, you know, you meet this sort of qualifying criteria.

Well, one of the comments we got was

how do we measure that 25 percent? I don't think it was super clear to folks when they read the proposal. So what I can say is that what we were -- how we were envisioning that aspect to be calculated is if you think how you fill out Schedule RC-R today, you have a lot of off-balance sheet lines you have to fill in, sort of the notional amounts of those things and some of those things get credit conversion factors and what-not.

So you can think of sort of the notional amount of those off-balance sheet items as how you calculate your 25 percent, with a few key carve-outs. So we would not expect you to add things like unconditionally cancellable commitments to that, to that number. We got comments about how, you know, mortgage banking exposures might go into that off-balance sheet filter, things like rate locks.

A lot of those things don't go into your risk-based calculation today, so they would not go into this off-balance sheet filter moving forward. So I think that's an area. If we move forward with such a criteria where there's a lot of room for this clarification, simplification, make sure it's clear.

I can say that, you know, as proposed roughly 80-85 percent of banks under ten billion would qualify, so it's a giant chunk. And then we got comments that, you know, depending on where you hit the ratio, you can even get more. So is that helpful or --

MEMBER TURNER: Yeah, no. That's great. Yeah, that's very helpful.

MEMBER DONNELLY: Ryan how -- kind of help explain the process from now. You got 600 comments in there. Somewhere in the building somebody's looking at them. What is the process, so I can take that back and explain the process now that the comment period's over?

MR. BILLINGSLEY: Sure.

MEMBER DONNELLY: Where do we go from here?

MR. BILLINGSLEY: That's a fair

question. So typically how it works is we -- we have staff who at the FDIC work closely with staff at the OCC and at the Fed. So we do a lot of joint rulemakings with those guys, because it impacts the same firms.

So we spend a lot of time going through those comments, digesting them, coming up with recommendations for folks like the Chairman and Doreen to consider as we move forward. So we're still in that process now, trying to like wrangle all the comments, put together a final package for our Board's consideration. That's exactly where we are right now.

And I can tell you that, you know, like I said before, it's a front burner issue so I can't give you timing. But it's, you know, hopefully in the near future you'll see a final rule. But the deliberation around comments, you know, we have staff read through all the comment letters, digest them all and try to figure out, you know.

If you can think about the written

comment process with the interagency, you can't possibly make every commenter happy because there's -- you can't do everything for everyone because it doesn't make sense, not mutually exclusive comments.

MEMBER DONNELLY: Sure.

MR. BILLINGSLEY: So going through that process, figuring out how we move forward, what's the best way to take on board those comments and move forward with a final rule we feel good about is the process we're in right now.

MEMBER DONNELLY: And the final decision-making is right here?

MR. BILLINGSLEY: Amongst the other banking agencies --

(Simultaneous speaking.)

MEMBER DONNELLY: Thank you.

MR. BILLINGSLEY: Yeah, exactly.

MEMBER DONNELLY: Sorry. Just had to ask. Thank you.

MR. BILLINGSLEY: Sure, yeah.

MR. STORCH: I guess it's my turn. Good morning and I'm pleased to be with you once again, updating you on developments affecting the Consolidated Reports of Condition and Income or more affectionately known as the Call Report. In June, the banking agencies, and I won't say affectionately by whom.

In June the banking agencies approved and published a final rule to implement Section 205 of the Economic Growth, Regulatory Relief and Consumer Protection Act. Section 205 requires the agencies to issue regulations to allow for reduced reporting in the Call Reports in the first and third calendar quarters, for institutions that have less than $5 billion in assets and meet other appropriate criteria.

Under the final rule that the agencies adopted besides the $5 billion asset-size test, the other criteria for eligibility to file the 051 Call Report are not much different than they are today, where we have a billion-dollar size limit for the 051.

An institution must have no foreign offices, is not an advanced approaches institution for regulatory capital purposes, and the new one is that it's not treated as a large or highly complex institution for deposit insurance assessment purposes. That comes into play sometimes around the $5 billion size mark. It wasn't really relevant at a billion dollars.

And these eligibility criteria are the same as those in the proposed Section 205 rule that the agencies issued for comment in November of 2018. So the final rule in the agencies' view at least meets the statutory requirements of Section 205 by expanding eligibility for filing the 051 Call Report to institutions with one billion or more or less than five billion in total consolidated assets, and reducing their reporting frequency for a range of data items in the 051 Call Report for the first and third calendar quarters beyond those that already had reduced reporting in those calendar quarters.

The agencies chose to use the existing

streamlined FFIEC 051 Call Report as the version of the Call Report to implement Section 205, because it's already the version of the Call Report that collects the least amount of information compared to the other versions, the 041 and the 031 for banks with foreign offices in general.

There already is reduced reporting frequency in the first and third quarters, which was one of the objectives the agency set when they first implemented the FFIEC 051 in March of 2017 and then further reduced reporting burden in that report in June of 2018. The majority of institutions with less than five billion in total assets already use the FFIEC 051 Call Report are familiar with it and wouldn't have to go through any changes if we were to introduce a fourth version of the Call Report.

Of course an otherwise eligible institution is not required to file the FFIEC 051 Call Report and has the option to file the FFIEC 041 call report. More than three quarters of the approximately 4,800 institutions with less than $1 billion in assets already file the FFIEC 051, and by expanding eligibility to $5 billion in total assets about 550 more institutions will be eligible to file the FFIEC 051.

Also in conjunction with the Section 205 final rule, the agencies approved a number of changes to the FFIEC 051 reporting requirements. These reporting changes, also with the increase to $5 billion in the asset size eligibility criterion for this Call Report have been submitted to the U.S. Office of Management and Budget pursuant to the Paperwork Reduction Act and these reporting changes will take effect September 30th, 2019, subject to OMB approval.

The specific reporting changes include a reduction in the reporting frequency from quarterly to semi-annually for certain existing data items in the FFIEC 051 Call Report, including reducing the detailed regulatory capital risk-weighting data, details on troubled debt restructurings, website addresses and trade names and certain trust data.

So this further increases the number of FFIEC 051 data items for which semi-annual reporting will apply.

In addition, for those institutions with $1 billion or more in total assets that are now eligible to file the 051, certain data items pertaining to estimated and uninsured deposits, disaggregated data on the credit loss allowances, and certain data on consumer deposit account products that are currently reported in the FFIEC 041 are being added to the FFIEC 051, but generally will be collected only semi-annual or annually rather than quarterly.

These items would not be required from institutions with less than $1 billion in total assets that file the FFIEC 051 Call Report.

In the Section 205 final rule, the agencies indicate that they are committed to looking for ways to further reduce the reporting burden associated with the FFIEC 051 Call Report, including for the reporting frequency, reducing the reporting frequency in the first and third quarters.

The banking agencies have begun discussions on what these next steps will entail, while taking into consideration the need to collect sufficient information for the agencies to fulfill their statutory roles of chartering, licensing, supervising and insuring depository institutions.

And of course any proposed changes coming out of these next steps efforts would be issued for public comment. Ryan touched on a couple of capital rules, and they have some Call Report consequences.

So I'll just bring to your attention the CBLR proposal, because it's an entirely different framework than the existing risk-based capital framework, would lead to a change in the reporting of capital data in the Call Report and that's looked at as one possible area where smaller institutions would be able to benefit from a reduced reporting burden.

The agencies did issue a proposed Call Report schedule for CBLR information in April. The comment period ended in June. Surprisingly, we got no comments on the Call Report proposal, probably because you got 600 on the rulemaking proposal. To the extent, based on the comments that the agencies received, and you talked about the process for evaluating them, if there are modifications that ultimately get made to the proposal that was issued for CBLR, those corresponding changes would be made to the Call Report collection of data for CBLR as well.

And then the reporting changes in the Call Report for CBLR would take effect in the quarter when the CBLR itself would take effect, whenever that may be. And then with respect to capital simplifications, Ryan talked about the changes in thresholds. The existing Call Report Schedule RC-R is built around the existing thresholds that applied to the common equity Tier 1 calculation.

So we'll have to go through a notice

and comment process to alter Schedule RC-R to accommodate the simplifications rule. So that proposal is being developed and should be issued for public comment in the coming weeks. With that, we can turn it to any questions you may have.

(No response.)

MS. MILLER: Okay, all right. I'll go. Thanks, Bob. So thanks everybody for your comments on the brokered deposit regulations. You know, we're hard at work on that. Back in December, we issued, our board issued an advanced notice of proposed rulemaking, and the idea there was to obtain some input on our brokered deposit regulations, which also have the interest rate of regulations embedded in there.

We were looking at and you raised some of these issues earlier today, you know. Markets have really changed since even the last time we changed our regulations in '09, in terms of technology, the market itself, the types of products that are involved.

So we asked about all aspects of the regulation, but we were particularly interested in two areas. Number one, the way we have interpreted what constitutes a deposit broker, what does it mean to facilitate the placement of deposits, as well as the way we calculate the interest rate caps that are applicable to less than well capitalized banks.

We received about 130 comments in total. The Chairman has expressed a desire for us to tackle the issue in two parts basically. So first focusing on the calculation of the rate caps that are applicable to less than well capitalized institutions, and then moving on to broader policy issues related to brokered deposits.

So we're actively involved in the rulemaking process. Even in the ANPR is considered the rulemaking process. So I'm just going to provide sort of a general overview of the comments that we received, let you know that we're certainly hard at work on that first part of the rulemaking. Plus, if I revealed anything else, my lawyer would probably tackle me. She just snuck in.

So we talked to this group a few meetings ago probably now, you know. The national rate calculation first was put on the books in 1992, and from then to 2009 the calculation was pegged to Treasuries. The way we did it was we used a percentage of Treasury. So for smaller denomination deposits that were fully insured we used a 1.2 times, and then for larger at the time was over 100,000. We called those jumbo. It was pegged to 1.3 times, a similar tenor for Treasuries, and that was the national rate.

And then the cap, which was, you know, applicable to less than well capitalized institutions, added 75 basis points to that national rate. So this worked fairly well for most of the period 1992 to probably mid-2000's, since deposit rates and Treasuries were sort of aligned moving in the same direction. But the meaningfulness even during that period of that flat 75 basis points was really highly correlated to the absolute level of rates at any given time.

And then during the crisis, you'll remember that sort of the relationship between deposit rates and Treasuries broke, and that was because yields on Treasuries plummeted when folks, you know, in the global crisis flew to quality. So we changed the calculation in 2009 and it was effective in January 2010, and we moved it from a peg to Treasuries to actual rates paid.

The actual rates paid are based on a survey of various product types and maturities, and that survey is done for us by a company and we publish that weekly. At the time, we kept the 75 basis points to calculate the caps applicable to less than well capitalized banks. Another change that people sometimes forget is we made that the presumption. We made the national rate the presumption for the applicable rate.

But that presumption is rebuttable, in that an institution can seek a high rate determination from us if they believe that their local rates are higher. Now during the heat of the crisis, this presumption held. So you know, when we had hundreds of problem banks, we were processing hundreds of rate determinations, and so the presumption sort of removed that burden as well.

So I mentioned the process became effective in 2010. It raised the caps during the crisis. So we had already troubled banks that were deeply, deeply in distress and didn't automatically throw them into a liquidity issue. So according to the preamble at that time, the new calculation had, and we believe continues to have, at least several advantages.

So first of all, it took advantage of new data on actual rates paid, and that data was not available in 1992 so that's why we went to Treasuries as a proxy. Relatedly, the data covered non-maturity deposits. And so several of you mentioned how things have really changed. Think about how they've changed since 1992.

The regulation didn't really consider at that time that non-maturity deposits could actually be brokered. But that's certainly a bigger piece of the pie now. For those types of deposits, using Treasury as a peg is really not ideal because obviously Treasuries do have a maturity. So the crisis, you know, as the crisis resolved, you know, the rates stayed very low for a fairly long period of time.

We had another issue where those 75 basis points became less effective as a governor for those less than well capitalized banks. So in other words, you know, 75 basis points over zero is not really a cap or a restricter at all. So that was a different kind of problem.

And then in 2015 interest rates started to rise, and we had a situation where banks especially the large banks were still flush with cash and were very slow to raise their rates. So the national rate has definitely grown a little bit, but very, very slowly. At the same time, we've got a market, some of you have mentioned it.

It's really heated at, especially at the offering. I think it was Kenneth was mentioning people with 25 basis points have suddenly woken up and said oh my goodness, others can pay two. I want two now. And so that took a while but certainly is working its way through the system. We see a number of promotions. You'll see off-tenor CDs with higher rates. You might see cash deals for moving checking accounts.

So a lot of interesting things that are not accounted for in the current national calculations. So another thing that's occurred is that because of all these market dynamics and the fact that the national rate is so low, nearly all of the less than well-capitalized banks at this point are seeking local rate determinations rather than relying on the presumption. So we're sort of back to where we were before we changed it to a presumption.

So the commenters in the ANPR raised a lot of these points. You've raised some of them here, and I'll just give you sort of a flavor of some of the suggestions they had to fix it. So some suggested including other factors in the peg beyond just published rates. So some of them talked about is there a way to factor in these special features?

Some advocated for one bank, one vote versus all branches. So right now if you're a bank with -- meaning you're one of the large institutions, you have -- everybody offers a one-year CD. Every single branch that offers that CD gets a so-called vote in the process. Some talked about including credit unions in the national rate calculation, not just a local rate calculation. You will recall they are allowed in the local rate calculation.

And then others talk about the rise of Internet banks and Internet competition, and is it really the appropriate way to talk about market power by branch and should it really be by some other factor, to recognize the power of those institutions. So pricing power, and those institutions tend to price at the higher, higher levels as well.

So we had other comments related to what it means to be significantly above the prevailing rate, and it was recognized that this idea about a flat rate has its limitations. One of our staffers says, you know, it's sometimes like a clock. It's right twice a day. You know, so depending on where rates, the absolute level of rates are depends on the meaningfulness of the flat rate.

So some talked about using a blended approach, where you could use the higher of perhaps the old way we did things with Treasury, or the 75 bps. And then we have still others that asked us to search for a more dynamic approach, maybe something that could sort of stand the test of time would be applicable in various rate and market scenarios.

So those are sort of the high-level comments that we received. We are working very hard. We're trying to propose changes in the short order in an NPR. The process there is we would get a package together for our board, who would vote on it. We would issue that for public comment, and look at those comments and take them into consideration before issuing a final.

Unlike the capital rule that Bobbie mentioned, some of the rules I work on, this is an FDIC-only regulation. So we don't have -- while we do talk to our sister regulators about the process, this is actually a rulemaking that's reserved for us.

Some other comments we received on brokered kind of relates to what it means to facilitate. We've got a lot of comments about affiliates. Hey, this is a new way of doing business where we're all one family. Brokered sweeps, types of programs that were not around perhaps when the law was put in place, health savings accounts, prepaids, other types of program managers and that ilk. So that's the -- those will be considered in the second step of the rulemaking.

Finally, Doreen just asked me to touch base on some other commenters and some of the things you said here before about the idea of volatile deposits and from a supervisory perspective, we really became aware of an issue probably towards the end of last year, where banks were concerned that examiners were characterizing, you know, regular old deposits as volatile funding sources in the exam report and presenting them that way, even if they were complimentary of the risk management of those.

And so we clarified instructions in our exam manual and to examiners in our training about the difference between characteristics of the deposit and types of deposits. So we basically instructed not to list deposits in the exam report as volatile, but actually talk about the types of deposits they are, and if the characteristics indicate that they are less than stable or volatile, then that's where the discussion would go.

So hopefully that clarification is

working its way through the exam process. That's all I have.

MEMBER HANRAHAN: Rae-Ann, thanks for the history on the evolution of the national rate cap. That's very helpful. Even though the relationship between market rates and Treasuries broke down for a while, intuitively it just makes sense to me that that should be a consideration for the formula at 120 or 130 percent or what have you.

If the U.S. government can borrow money at one rate, it makes sense that banks might have to pay a little bit more than that to borrow money. So I saw at least one commenter, and you just made reference to somebody suggesting a greater of test between market rates and the Treasury. Is that something that the FDIC's open to considering?

MS. MILLER: Yeah. I mean we're considering, you know, all the comments that had been provided and you know, there's a number of ways you could go. So this is good. This is an interesting process, where you know, in all of our rulemakings we try to consider an approach and then alternatives. So we'll be talking about things like that in the NPR.

MEMBER HANRAHAN: Okay.

MEMBER TURNER: One question I had Rae-Ann, it seemed to me -- it seemed to me really from a regulator's perspective, there's a dangerous kind of a situation given where the national rate cap is now, you know if -- and I don't know how common this is. But if you're -- if you examine a bank and you think for one reason or another the bank's doing okay, they have strong levels of capital but for one reason or another you believe well, we want you to maintain maybe a little higher than the well-capitalized level because you have a little more risk in your loan portfolio or we see some operational issues that we're concerned about, you put that in a memorandum and then they're under a capital order which throws them under this -- the national rate cap situation.

You know, just we wrote a comment to you and you know, I don't feel like we're high rate payers. But a big chunk of our CD portfolio is over the national rate cap. And so is there any thought to kind of moderating that effect, where you know, if you're in compliance with a capital memorandum, a capital directive that's been issued to you in a memorandum, then you wouldn't be deemed to be less than well capitalized.

MS. MILLER: I think that's a very good point Joe. But before you even go there, there is still the local rate determination. So in that case if you were over the national, and this is what's been happening is for institutions that are in trouble or having some problems, they come to us and typically they'll get that.

So understand that's a stopgap measure. But I think yeah, I mean being flexible and being situation focused for enforcement actions is something we're very serious about. If there's an institution, you know, that's but for that particular provision would be adequately or well capitalized then we're going to definitely consider that.

MEMBER TURNER: I could just see a regulator thinking I probably should. Prudent regulation would require me to, you know, put a capital directive on this bank. But I really don't want to because it may throw them into a liquidity crisis. That's not -- that's not the kind of influence you want your examiners to be under.

MS. MILLER: Right, right. I think that's right. It requires flexibility. It requires an institution-by-institution approach and no one-size-fits-all.

MEMBER TURNER: And then the only other comment I would make, and I know you're aware of this, but the current survey, I don't know that it captures so much rates paid as it does rates offered. Those really aren't the rates -- I mean the rates that I'm sure you're getting from Great Southern branches aren't what we're actually paying in most cases. So and I assume that's probably true, you know, across the country.

MEMBER DONNELLY: Rae-Ann if I may, I'll let my comment stand for my -- I don't want to change my comment. But the decision when we have to ask for an exemption or whatever you want to call it, is that a regional or is that a FDIC, a Washington decision?

MS. MILLER: That is delegated to the region.

MEMBER DONNELLY: Okay, thank you.

MEMBER EPSTEIN: Rae-Ann, may I make one quick comment? When you look at perhaps regional rates as a consideration for the national rate cap, is there any thought of using another credible wholesale funding source that does take regional competitive differences into effect, such as Federal Home Loan Bank advance rates?

MS. MILLER: We did get -- we did get a number of comments about that, and so we're definitely looking at that issue.

MEMBER EPSTEIN: Thank you.

MS. EBERLEY: Okay, Martin.

MR. HENNING: Well good morning. My job is to update you on the interagency work to improve the effectiveness and efficiency of our BSA/AML supervision. I think you've heard about this before but last Monday, the 22nd, we issued with our fellow regulators our third joint statement, and it focuses on our methods for risk focusing examinations.

It's in your packet. I think it's the last attachment for this session. As a reminder, the first statement we issued last year revolved around sharing BSA/AML resources and particular situations, and gave examples of situations where that would be in our view reasonable. The second statement after that was a statement supporting innovation in BSA/AML, and certainly we see lots of examples in companies and banks doing that, and particularly in the BSA/AML space. So that was the second statement.

This statement focuses really on improving the transparency around our own planning and actually conducting examinations to be risk-focused. The statement says examiner risk focusing really starts with good bank risk focusing.

Those are my words, and it talks a little bit about what you probably already know, that banks that manage their BSA/AML risk have good risk assessments, that characterize for management and the board of directors where that risk lies, what kinds of things they need to be concerned about and how to design effective programs or for example, detecting suspicious activity.

And the statement says that that's something that obviously our examiners should be and do rely on coming in and thinking about what the scope of the examination is going to be, what kinds of resources they need to bring in to do that examination, and how much time they need to spend on it.

A second example of risk focusing and leveraging is in the independent testing and audit. So if an institution has a good risk assessment process for understanding their risk and implements a program and then has independent test and audit of that program on an ongoing basis, again that is something that examiners can utilize to understand the conditions at the institution with regard to BSA/AML and leverage, and would impact again their scoping of their work and the allocation of resources.

The statement goes into a little bit of depth on some other things examiners look at, like you know, compliance with previous -- any actions regulators took previously. Certainly talking with management before the examination starts to understand if there are material changes in the products, geographies, you know, other factors that might influence BSA/AML risk.

Obviously where the profile is not changing in terms of the complexity, you would expect and everything else being equal that the examiner's allocation of resources would be lower than otherwise would be the case. You know, the bottom line it says in the conclusion, examiners should be allocating more resources to higher-risk situations in institutions and lower resources to lower risk.

It gives a couple of examples at the end. Request lists should be shorter when the risk and the complexity is smaller. Transaction testing can also be less when the risks just aren't there. So I would add that it's not in the statement. At the FDIC, we're spending a fair amount of time making sure we're consistent across the country in this regard.

We've actually got a new work program that examiners began using this year that helps them identify consistently the characteristics to look at. We had several different ways in a couple of regions to look at the characteristics of an institution from a BSA/AML standpoint and come to a conclusion about the level of complexity.

We've taken those examples, joined them together and then implemented regional work or I'm sorry a national work program that we believe will cause our examiners to be even more consistent in their view of BSA/AML risk going forward. So that's really the update on that statement. There's more to come. There's an interagency working group that meets every week, in fact met this morning.

The principals are meeting every month. There is more work underway, but that's the update on the third, the third statement that we've made. Be happy to take any questions you have.

MEMBER SHETTLESWORTH: Just a comment. Some anxiety we're seeing on our end is in the marijuana space. Not from the standpoint that we're interested in banking, directly banking that industry, but more than one occasion we've had a loan transaction where a tenant now is in the marijuana space and occupies that of our customer.

It's interesting, because when you have your customers fill out the questionnaire and what their bank is and it says are you directly or indirectly involved in marijuana making, our customers want to answer correctly. They don't want to lie, so they answer yes because I have a tenant in that space who is paying that. I am theoretically indirectly involved in that space.

It's causing a lot of anxiety from the bank level as well as our compliance consultants, who are kind of helping us advise, or advise us during this process. This issue I'll bring up with our FDIC examiners at the end of September when they start, because I'd like to get their feedback on it.

But it's a really interesting situation where you have some consultants seemingly interpreting the rule in their way, and I don't know -- in their own way, basing it on the percentage of income that that industry may create for that one real estate property. It's a bizarre phenomenon, because whether it's 100 percent or one percent, I mean it's just an interesting situation.

I don't think there is any definition like that in the regulatory -- in the rule book anywhere. So just be aware that that's causing some sensitivity, and I don't want to be in a situation where I can't bank my customer because they now have a tenant who occupies this space when that's helping repay our loan. So more of a comment to just kind of help us with that issue, because it's going to come up again.

MR. HENNING: Yes, and as a matter of fact I recall that that I think the last time my colleague Lisa Arquette talked to this group about this issue, that was exactly the example. That's a preeminent example of a CRE property where tenants might be marijuana businesses.

MS. EBERLEY: And I would just encourage you to reach out to FinCEN. Call their 800 number and ask the question.

MEMBER SHETTLESWORTH: Sure.

MS. EBERLEY: About whether under FinCEN's interpretations as opposed to a consultant's, would you even be required to file SARS in that situation.

MR. DAVIS: Okay, thank you. Next up is Anthony Lowe, the FDIC's Ombudsman. He'll provide an update to the Committee.

MR. LOWE: Okay, good morning everyone.

PARTICIPANTS: Good morning.

MR. LOWE: Chairman MCWILLIAMS, Director Gruenberg and all the members of the Advisory Committee. I'm very honored to be able to join you again today to talk with you about some of the important work that we're doing at the Office of Ombudsman.

This morning I'm going to spend a few minutes with you and I'm definitely going to invite you to have some questions for me, about an initiative that we're leading with regard to review of the FDIC's guidelines for filing appeals of material supervisory determinations.

For a historical background, the process that we have now was implemented back in 1995 as required by the Riegle Community Development Regulatory Improvement Act of 1994, to establish an independent interagency appellate process with regard to decisions made by the FDIC.

Appeal decisions by the SARC or Supervisory Appeals Review Committee averaged seven per year for the first five years of the process, 1995 through '99.

However, for the previous five-year period, the volume of appeals has represented less than one-tenth of one percent of the aggregate risk management and consumer compliance examinations conducted by the FDIC, and I have some charts on the next slide that we'll take a look at.

So we asked the question why is this level so low, and I'll ask you all if you have some comments here to definitely weigh in here. I met with my group and we came up with three primary, you know, thoughts in this regard. It could simply be that there's an absence of a disagreement with the examination findings; a lack of industry knowledge about or confidence in the appeals process, or an unwillingness to potentially upset a favorable relationship with the examination team.

You know, we haven't done really a study or don't have any empirical evidence, you know, to define if it's one or the other. I personally think it's probably a combination of all three, and again I do welcome your input here with your thoughts in this regard.

These slides do give you some information with regard to the volume of appeals, reviews and appeals that we've had over the last five years, and as a frame of reference again, we do have approximately 3,000 aggregate risk and compliance examinations each year conducted by FDIC.

If you do consider that we do also have IT examinations, CRA reviews, municipal security dealer reviews, trust examinations and some other type of examinations that we do issue ratings, and these would be material supervisory determinations.

Unbelievably, this less than one-tenth of one percent rating or ratio would be even less or much more severe. So I think it's important to think about, you know, what is a material supervisory determination and broadly defined, it's virtually any finding, conclusion or decision outside of a determination to pursue a formal corrective action that's derived from an examination, certain types of application denials and the laundry list that we have here with regard to MRBAs, violations, classified assets, the ALLL adequacy, virtually anything that you can think about with regard to the conduct of an examination is generally going to fall into that definition of a material supervisory determination.

I did want to talk a little bit about the current process that we have here at FDIC.

Generally, we do anticipate and hope that banks will make a good faith effort, and I've listened to the conversation during the round table this morning. It does appear that you all have taken it onto yourselves to have discussions, engage with the examiners during the course of the examinations and try to resolve any disagreements that you might have with regard to your examination findings.

If that process is unsuccessful, it's hoped that you would escalate that to a management-level official and if needed, all the way to the regional director and hopefully get it resolved. Unfortunately, there will on occasion be, you know, those opportunities where the informal route does not prove successful, and we do have the occasion for banks to pursue under our guidelines a review of a material supervisory determination.

The first step for a bank to pursue, depending on if it's a compliance or on the risk side, is to approach the division director in writing with a request for a review. Now this needs to be done within 60 days after the bank has been issued or has received a written communication of a material supervisory determination. In its simplest form, this is usually when the bank receives a report of examination.

Generally, this -- the request for review needs to be in writing. It should be approved by the bank's board of directors. It should clearly indicate what the impact of this area that the bank is asking for review has on the bank, and it should clearly indicate why they think the area needs to be reconsidered.

The division director generally has up to 45 days and that can be extended to issue an opinion or a finding with regard to that request for a review. Any questions so far, comments?

After the division director issues their finding, there is an opportunity if the bank does not agree with the division director's finding or their decision, that a formal appeal can be filed with the Supervisory Appeals Review Committee. This has to be done within 30 days after the division director has issued their opinion.

At that stage, the bank can ask to have the opportunity to an oral meeting in person with the Supervisory Appeals Review Committee. I understand that the Chairman of that Committee is a very forthcoming person, very open to having banks come in. I think the Chairman is here right now. But the Committee, you know, does have oral meetings oftentimes and generally any information that has been presented at the division director level also is presented at the SARC review level. Generally, no new information can be presented at the SARC level unless it has been approved in advance by the SARC Chairman.

So with the backdrop of the historically low volume of reviews of appeals and anecdotal information from our regional ombudsmen about concerns from bankers and at least one member of this Committee who has talked to me in confidence about concerns about potential adverse impacts if banks do file appeals, we're going to be launching over the next couple of months a two-pronged strategy to solicit input from the industry on our current appeals process.

The first part of this strategy, which will be launched within the next couple of weeks, will consist of the issuance of a financial institution letter soliciting comments and suggestions on all avenues that banks seek for resolving disputes over examinations and other material findings through discussions with examiners, our regional office staff, division directors and all the way up to the Supervisory Appeals Review Committee.

This will be done through a request for information or RFI, and it would include a series of questions. I think right now the draft has about 13 questions that we're going to be asking the industry for feedback on. I'll just read a handful of these questions, and again I definitely do want your feedback on these.

Just a couple of these questions. Do barriers or concerns exist with disputing MSDs, requesting reviews by division directors or appealing findings to the SARC? Is the composition of the voting members of the SARC appropriate and should the non-voting membership of the SARC be changed or expanded? Are there ways to improve the process of informally resolving disagreements between banks and FDIC regional management? Should the list of appealable material supervisory determinations in the SARC process be expanded to include other findings?

So again, it's kind of open-ended type questions and definitely would appreciate you taking some time to look at that FIL when it comes out, and giving us, you know, some input.

The second part of this roll out consists of a series of listening sessions that we're going to be hosting around the country with my staff and Legal Division. We're currently working to determine locations and the time, but we're planning to have at least one event in each of our regions around the country.

These events will have a fairly open agenda with a focus again on discussing our current strategy or our current guidelines for appeals, but also soliciting comments and recommendations for improving our processes. All of these strategies for the most part are designed with the primary goal of increasing transparency and ensuring fairness in our supervisory processes.

But also even more so, ensuring confidence by bankers in the appeals processes. So I'm welcoming your comments now or later. I do have my contact information on the final PowerPoint slide back there. My email address is jMCWILLIAMS@fdic.gov.

(Laughter.)

MR. LOWE: I'm sorry, mlowe@fdic.gov. So I'll stop right there --

MEMBER KENNETH KELLY: You said the

first one because you were expecting glowing reviews, right, from Chairman MCWILLIAMS. Again, Kenneth Kelly. I want to ask the question, and thanks for providing this background. I think it's very helpful for us to have context as it relates to this issue.

There are members who when they're impacted by these issues, they are very impactful to them and statistically I really appreciate the numbers you put up there. But for that one, and I can't think of another metaphor, it's like being in the Gulf of Mexico and going in and coming out with a flesh-eating bacteria.

For all the people that came out okay, it feels okay. But for that one, it's painful. And so I say that to say is there a process, and let me just be real clear. This is not just an FDIC issue; this is a broader issue consisting of the sisters of the other regulatory bodies. Is there a way that we could consider having a peer review be a component of that process?

Now I know the Ombudsman is internal

to the organization. But is it likely that that there may be some receptivity to allow other bankers to maybe be a part of that at some point in that chain, where the grieving institution could have their voices heard from a different perspective?

MR. LOWE: I would say that nothing's on or off the table at this point. Right now, again we're putting out the FIL and the request for information. I would ask the question, you know, how would you envision that? Would that be at the informal stage or the formal stage or --

MEMBER KENNETH KELLY: And this is a suggestion, because this is not anything that's been empirically studied, but it would be informal initially to see, because most of the time -- it is being heard, is a part of that process and ensuring that someone who can sit and relate to your issues, who allow you to hear them can be a component of that process.

Now let me be real clear. This is not

to usurp the regulatory body's governance. I'm not asking that at all, but it's just a suggestion. Would it make it worth the while to have a peer group at some stage of that appeal or review process to be a component of it? It's just a suggestion.

CHAIRMAN MCWILLIAMS: And so I'll take this one. Ken, the problem we're going to run with something like that, while I hear you on having a peer review type of setup is that the confidential supervisory information has to be protected. A lot of these, from my experience now sitting on SARC for over a year, are going through pages and pages of material supervisory information.

So I'm not sure how exactly how that could be set up. The reason I have tasked the Ombudsman's Office into looking at the appeals process is because we have got to make it effective, and we have to give an opportunity to banks to not just feel like they have a fair shot at this, but to actually have a fair shot at this.

MEMBER KENNETH KELLY: Right.

CHAIRMAN MCWILLIAMS: The way it's worked thus far is that we occasionally, you know, if we have a tie on the SARC, the decision stands. So you could have members of the SARC Committee who are actually agreeing, you know. But so we're looking at all of that. Also the Ombudsman doesn't sit on the SARC, and anyhow we're just opening up this and saying give us your input, recognizing that some things we can't do practically because of the statutes.

But we are open to any ideas you may have, and again if you have ever had an opportunity to deal with our appeals process, it will be immensely valuable if you could offer that information and your experience, you know, to me at jMCWILLIAMS at the fdic.gov or Anthony and his staff.

As I go around the country and I talk to bankers, you know, I and Anthony frankly hear most often we don't want to upset our examining team. That's what I hear most often as to why people are not willing to engage with our appeals process and formally file. Up until recently, even when you got the survey post-exam, it's an anonymous survey, you know. You get those surveys after the exam and it's an anonymous survey.

We had, I would say, four out of ten people respond because again, people are telling me oh, we don't want to send the survey, you know, findings back to the supervisory team. So we actually now the Ombudsman's Office is sending out the survey. It truly is anonymous. Anthony's hands are at times tied because if a bank reaches out and says we have a complaint about this, unless the bank authorizes Anthony to go further and actually share any of the information that they bring to Anthony’s attention, he can't really do a whole lot.

He can tell us I have heard from a bank without saying anything beyond that. So we need to make the process function in a way that folks feel they have a true shot at arguing their case. One thing that I've experienced from my time on the SARC is that a lot of people when they come to plead their case and disagree with the findings, they will bring information that happened after the date of the examination report.

Unfortunately, we can't reverse and go back in time and apply the current lens to January of last year. But you know, that's something we can't change. But we can certainly do constructive changes to the process. We can do constructive changes to the membership of the Committee. We can enhance the role of the Ombudsman. Any other ideas that you have, we would be more than willing to entertain and hear from you.

MEMBER KENNETH KELLY: Sure, thank you.

MEMBER LEAVITT: Anthony, I just want to compliment. This is Tom Leavitt of Northfield Savings Bank. The field outreach of the Ombudsman's Office, Sherryann Nelson, our regional ombudsman for the New York region, visited a week ago. Was very thorough in explaining what the office does, the independent role of the ombudsman within the FDIC, the reporting chain, the appeals process. It didn't hurt that she's a delightful human being, and made it very comfortable to share observations about the examination process and what we were going through the last couple of years in a positive way, but also some areas where we felt we could make some advances ourselves and with our regulators.

So I think that outreach, she said she's going to get to 80 banks this year, will go a long way toward upping that ratio of appeals that are legitimate and people feeling comfortable filing those.

MR. LOWE: Thank you.

MEMBER HANRAHAN: Anthony, the stats you have on page three of your presentation are helpful. I don't know if you plan to include those in the FIL that you put out, but that would be of value to bankers I think. One thing I don't see included in the stats is the number of appeals that are successful, at least from the perspective of the appellant.

If you can do so in a way that makes sure the data is anonymous, I would encourage you to do that, although saying that I admit that can cut both ways. For example, if it shows that a pitifully small number of the appeals were successful, it could reinforce some jaded opinions about whether it's even worth it to go through the appeals process. Nevertheless, that -- I think that data could be very interesting to bankers to see.

MEMBER DAKRI: Yeah. I think the transparency would be worthwhile, to have that either way.

MR. LOWE: Yeah.

MEMBER EPSTEIN: I have a quick question and a comment. In number one, this is a just a prime example of the sincerity of the commitment to transparency. We've been hearing about over the last year, year and a half and I certainly applaud that effort and willingness to get out into the field and go see bankers and make it convenient for us to participate. I appreciate that.

Does your office have any role in appeals, either from proposed banks, de novos that have been denied, FDIC coverage or that feel like the conditions set forth for them to receive approval are unfair or cannot be met?

MR. LOWE: No, we don't have any official role in that process. We do have a role that, you know, after a bank has opened if they do, are successful in getting de novo deposit insurance, a state non-member, I think it's within 180 days we do go and visit that institution and we talk about the application process, how did that process go, how was the exchange of information? Was there anything that they thought was, you know, inappropriate or anything they, any recommendations that they have about the process?

So we do have a post-mort that we do with the institutions that do actually open, and you know, try and determine is there -- are there some changes that we need to consider with regard to the process.

MEMBER EPSTEIN: Has there been any thought in expanding your role to having engagement with the proposed bank if the proposed bank wanted to reach out to your office?

MR. LOWE: They can reach out to us at any point in time if they, you know, think there's, you know again, something unfair or something that's not being done with regard to the existing guidelines. We can always have that discussion with them, yeah. But we're not part of the decision-making process.

MEMBER WALKER: Anthony?

MR. LOWE: Yes ma'am.

MEMBER WALKER: First of all, I want to apologize for being late. It's very good to be here. Just a quick comment and I agree with Thomas. It's all about relationship and understanding and knowing. So have you thought about, and maybe it's too much work, of having the Ombudsman be included in the call at the beginning of an examination, for safety and soundness or compliance, to be on that call as an independent person, and in that way they're getting to know the team as well over time?

MR. LOWE: You mean the first day call to the bank?

MEMBER WALKER: Yep, the first day call.

MR. LOWE: Have not though about that. We'll consider that.

MEMBER MALEY: Just one comment. Lori Maley, Bank of Bird-in-Hand. I think hopefully what you're seeing with some of the results is that the exam process is more streamlined, and I think it's improved. I mean I've been in banking 30 years, and honestly the past exam we had as I spoke before, it was seamless.

There was communication before, and I

think, you know, bankers will pick their battles. I think they should understand that part of that is there needs to be two-way communication. It's not just communication during the examination. You should have open communication. I don't think examiners like to be surprised. They want heads up if there's issues. So hopefully we're seeing a little bit more of that.

MR. LOWE: Uh-huh, good.

DIRECTOR GRUENBERG: Anthony, I do think that what we're talking about here is, in some sense, dispute resolution if there's a difference of view between the examiner and the institution on a material supervisory decision. And I think the appeal all the way through the process to the board-level committee is almost by definition going to be the extraordinary case.

To go through the process at the regional director, at the division director and then ultimately taking it to a, you know, a quasi-appeal process with board member and inside representatives of the inside directors, in which the institution will often engage counsel to support their presentation.

That, you know, is in some sense the extreme and I think the numbers on those kinds of cases, it doesn't particularly shock me in terms of the numbers. The real test of the system, you want that ultimate appeal review in the extreme case to work well. But it's really the earlier stages in the process and how differences get resolved hopefully in a more informal way, optimally between the examiner and the institution but at the regional director level as well.

To me in some sense is where most of this work is going to get done. So looking at how the process is working not only when appeals go to the division director or to the SARC, but also to the regional director level, and getting some sense how that process is working to me is pretty important as a line of sight into this issue, because my guess is that the large majority, if not the vast majority, of issues are going to get resolved there, and how well that is working is really pretty important, I think, for the large majority of cases.

The real threshold here is can we establish -- it's always going be tricky it seems to me. Not having been an examiner, Anthony has been for about 30 years I think. It's always going to be tricky for any time somebody's in charge of you or supervising you or overseeing you and you have a difference with that. That's a pretty tricky proposition.

Bringing that difference to that person's attention or more to the point, if you can't get a satisfactory outcome, taking the difference above that person to that person's superior is inherently a dicey proposition in any organizational arrangement. You know, I think what we would be aiming for is a system where there's sufficient understanding by all parties, that this is part of the process, that an institution has to feel that it's got the ability to have a difference of opinion.

I mean that's not an easy thing to do. That's a hard thing to build into a system like this. I would like to think that's what we're working toward here. I think that's what Anthony is trying to do with this, you know, initiative. But moving us to a place where there's better understanding by the institutions and by our examiners that this is part of the process, clear understanding that there's a role.

An institution feels that there's a, you know, an outcome is not the right one based on the rules and the law, there's got to be an acceptance that this is part of the process and an understanding on the part of the institutions that they can exercise this without consequence.

I think that's what we're working toward. It seems to me that's always going to be kind of sensitive. But that's what we're working at here. But I do think in many ways the key -- it's important that the whole process work well. But that stage of the examiner to institution and division director, regional director, where most of this interaction takes place, is particularly critical to making, to making this work.

MEMBER TURNER: One comment I would have to kind of tag along with that, I think the first line of defense that the FDIC has to antagonistic relationships between the FDIC and insured institutions is examiners-in-charge. You know, I've been through a lot of examinations.

Most have been good because I think the examiners are well trained at the FDIC. But it seems to me that the most effective kind of personality type of examiners-in-charge are those that are -- have a bit of a judicial temperament, as opposed to a prosecutorial temperament. You know, those that sort of sit back and want to assess the, you know, kind of the evidence.

I think back to, you know, our credit people were arguing about a classification with the -- somebody reviewing asset quality, and a very effective examiner-in-charge that we've had said look, let's just agree -- let's agree to the facts. We can all sit down, we can write down the facts with respect to this particular credit, and then we can take a look and decide, you know, does this constitute a substandard credit or is it a watch credit, pass credit or whatever it is.

I think the person that's really effective at that, you're going to have a lot fewer examination issues with those kinds of people. I don't know exactly, you know, how the promotion process goes in the FDIC. But there may be people that are just better suited not to be examiners-in-charge.

There may be people who have personality types that just that's not going to be where they're, you know, best utilized. But I don't know how that works at the FDIC, if it's once you're here X years you get promoted or -- but it's something that, you know, I mean I can think of the people at our bank that wouldn't be suited to that sort of supervisory role.

MR. LOWE: Great. If there's --

MEMBER KENNETH KELLY: Anthony, I'll just say real quickly, just want to commend you for what you're doing. I think the effort to get out and visit is a great communications tool for institutions to really appreciate what you're trying to accomplish. From this body and my perspective, I think that in itself will be very helpful, along with what Director Gruenberg just mentioned.

MR. LOWE: Thank you.

MR. DAVIS: Okay. If there's nothing else, we'll move to the next panel. Thank you, Anthony. Next up is Brandon Milhorn, our chief of staff. He's going to provide an update on the Subcommittee on Supervision Modernization.

They met for the second time last month and Dave, I know as a member of the Committee, obviously feel free to chime in here as well, I'm sorry, as the Subcommittee. Feel free to chime in as well, but I'll now turn it over to Brandon.

MR. MILHORN: Sure. Thank you, Chad

and good morning to everyone. As Chad mentioned and for those of you who aren’t familiar with the Subcommittee, this January the Chairman set up a Subcommittee on Supervision Modernization. The goal is to bring in some community banks, some former examiners, some former regulators, as well as some technology experts who may or may not have any experience with banking but have some willingness to interact and engage with the FDIC and look at our examination process, sort of pull it apart, think about how technology and training and process improvements can make our supervision more effective, more efficient and less burdensome for our community banks.

The Subcommittee started meeting earlier this year. We've met twice now. Our goal is to make recommendations and produce a report for the full Community Bank Advisory Committee to consider, and report out to the FDIC.

From a process standpoint, our first meeting was spent primarily on educational topics for the understanding of the examination process, particularly for those members that may not have been accustomed to the process. Based on those briefings, we divided up into multiple working groups, and I'll just run through the topics that the working groups are working on.

We have an examination workflow, data and technology access or analysis working group. Essentially the goal there is to look at our safety and soundness and compliance examination process and understand from soup to nuts what data we're looking at, how we deploy people, how we deploy technology from the beginning of exam to the end of the exam, to understand if there are any processes that are redundant, if there are any new technology or data that we can take advantage of to improve that process. That Subcommittee is ongoing.

Within that group, we tried to identify the most challenging components of an exam, and loan review by far stood out as the most complicated and challenging component of our exam. Just for some context, our average hours spent on loan review over the last two years, the average 425,000 hours per year during exams on loan review, and over 80 percent of that was at our community banks.

It's roughly the equivalent of some 350 man hours. We had those numbers recently. I forgot them. But that's an incredible amount of time that we spend on loan review.

Next, we have a sentiment analysis and open source information. Can we -- with the question of how can we use available information from outside sources to scope our examinations more effectively.

We also have a group looking at the Call Report. The purpose of that review is to think, make sure we understand what data we need, how we use the data that we ask for and if we change the mechanism for collecting the information or getting the information from institutions, would that -- whether it's in instead of quarterly it's more often, would that change the amount and type of data that we would request in the context of the Call Report?

We're also looking at examiner deployment and separately examiner training in working groups. Then finally we're examining how we can more effectively use the Division of Insurance and Research to support our examination teams. Those are our working groups. Right now they're meeting with Subcommittee members. They're collecting data from FDIC employees.

Our goal is by September-October to produce a set of recommendations and then by the end of the year to turn that into a formal report. For those that have not heard my speech before, our goal here is to really reimagine how the FDIC supervises its institutions. Not just to automate manual processes, and not just to look at how technology can be used. Our goal is sort of across the board. Technology, people, processes, to make sure that we're not just doing things the same way we've always done them because we can. That's easy to do.

What's hard to do is think about how your process can change to accommodate new approaches and new technology. I think we've done that very successfully. If you look at our risk scoping on our compliance exams, I think that's improved our outcomes.

RMS has engaged in several commendable workstreams over the last several years, including our forward-looking supervision and risk-scoping workstreams to reenvision how we do exams and to make sure that we're doing it in the most effective and efficient way.

But we're asking more -- we're trying to ask -- Dave can speak to this, much more fundamental questions about the process, and to think about it in ways that maybe you haven't thought about it before, you know, and to also consider how our efforts, whether it's because we're conducting more efficient examinations, can encourage community banks to adopt new technologies or new back office approaches to their operations, that not only will make them more efficient, more effective, more competitive, but also make our supervision more effective in the process.

That I think is a summary of where the Subcommittee is at. I've saved you from a PowerPoint death. But I'm happy to take your questions if you have any at this time, or to have Dave update us on --

MEMBER HANRAHAN: That's a great summary, Brandon. There's little I can add. I will say that I thought I knew a fair bit about exams coming into the Subcommittee. I know now way more about the exam process.

In addition to the Subcommittee members, there are several times that many people of staffers working on this, and it's clear that they've taken the Chairman's charge to heart, to think with a clean slate on the exam process, and I'm proud to be a part of the process.

MR. MILHORN: Thank you very much. Yes sir.

MEMBER DONNELLY: I have a question.

I'm not sure I understood. You quoted the number of hours spent and you say 80 percent of those hours are on the community banks. Why is that? What is the reasoning that we're -- is it if you total up all the loans, they're not all on those 80 percent of community banking. There's a lot bigger institutions and it totals up --

MR. MILHORN: Well as Doreen can probably speak more effectively to that. But I think the -- one of the biggest challenges is the paper-based --

MEMBER DONNELLY: Technology.

MR. MILHORN: Is the technology, right. We've seen tremendous, whether it's through Project FIVE or some of our that helps banks digitize their loan files. We've seen tremendous benefits from a supervision standpoint in hours spent on site and off site at institutions that are able to digitize their loan files.

But you know, when you've got boxes and boxes and boxes of paper and you've got to bring that in and review it, that just creates additional challenges. You know, one of the -- this is actually an interesting topic I think that I love to talk about, is we're looking at improved sort of -- you know, innovative, creative acquisition ideas to support these topics and the development of technology. One of the challenges with government procurement overall is, you know, we think of big giant programs. We set, you know, single standards for how things should be done and then we go out and procure massive monolithic technology.

We're trying to think of things differently, and think of how we can use our resources and our perspective on the marketplace to encourage market-based development of technologies. One of the -- if you look at what the Department of Homeland Security has done with some border security screening technology initiatives, what the Department of Defense, particularly the Special Operations Command has done, you know.

What they will do is they will seed an idea into the marketplace if it's a market, if it's something that the marketplace needs. So think of loan review technology, AI/ML-based review, natural language processing, additional assistance with digitizing loan files. If you can seed that into the marketplace in a manner that supports your, the FDIC's loan review standards, that becomes a valuable tool for institutions.

But what's interesting about the model that SOCOM and DHS have used is that by allowing the market participants to continue to maintain the IP, the government doesn't own it, they're allowed to then sell it. That seed money creates a huge venture capital pool for those institutions so I can get additional bang for my buck, a multiplier on the seed funding that we used for those market participants.

And then as you walk them through from the thought stage to the prototype to the demo to the test, and then finally to the final product, it really produces some very good market-driven solutions that weren't driven by, you know, exacting technical standards from an agency, but were allowed to develop outside the agency.

What we've seen in other agencies is you get a mix of participants that you would expect, but you also get some new participants who are willing to come in and think differently about a process. So that's some of the things, some of the creative techniques that we're looking at using with respect to loan review.

But to me, that's just the tip of the iceberg, because we can deploy these techniques across many different market challenges. As the Chairman looks to set up the FDIC's tech lab, whether we're talking about tech sprints or pilot programs or working with institutions on technical assistance, our ultimate goal is to reduce the cost of community banks adopting technology, so that they can become more competitive into the future. That's not just better for them, but better for us.

MEMBER KIMBELL: If I could just add something too. I'm all for efficiency, yet too I'm also for looking someone in the eye and shaking their hand.

MR. MILHORN: Absolutely.

MEMBER KIMBELL: So I would not -- I would definitely not want to see us move to a situation where I never get to meet my examiners.

MR. MILHORN: Yeah. In fact --

MEMBER KIMBELL: That would be a very scary thing, especially for me in a rural area to -- it's okay for examiners to walk inside our doors and to see us and to meet us and to see our surroundings and what we, where we live and what we deal with. I think that's very important.

MR. MILHORN: You know one of the things I --

MEMBER KIMBELL: I cannot forget that.

MR. MILHORN: One of the things I always try to make clear when I talk about supervision modernization is this is not about onsite/offsite, right? A lot of people think this well, the more we do offsite and the more we -- that's not, that might be an outgrowth, but it's not the goal.

What my goal when I think about it is, you know, how can you identify risk early, work with an institution to mitigate risk early, and in the process make our supervision more efficient. I don't think you'll ever be able to substitute, particularly on the management side, that face-to-face contact, that direct engagement with an institution.

But if you think about, you know, the 12-month, 18-month examination cycle and the amount of hours that we spend and the number of examiners that end up in your institutions, my question and I pose it as my own thoughts not necessarily the FDIC's position, but is -- if we expand that out over time and we change the way that we dialogue with institutions over time, and we change the timing with which -- at which we get information from institutions, can we make that process more effective?

In the process, do we understand the institution's business model a little bit better? So that actually there's more engagement, more direct engagement over time leading to a more risk-scoped exam that's just as effective and efficient at the end of the day. I think to me, that's how I think about the process that we're going through on the Subcommittee.

MEMBER LEAVITT: I know we're on a time stop, so 30 seconds. I just want to say I'm encouraged by your -- because we were a beta for our part of New England, first bank to go through the Project FIVE earlier this year. It was clunky all around, and it ended up being a hybrid loan review for that reason, part onsite, part offsite.

Ultimately in that is a sauce someplace that's going to work for all of us, I think. We'll get modernized. We'll get some guidance from you on digitizing the loan files in a format that is retrievable by both parties, so that we're looking at the same thing when we're having our conversation either face-to-face or over the phone, and I think there's promise in it. Thank you.

MR. MILHORN: Well thank you very much. We appreciate you participating in that pilot. We've got to show a willingness to participate in pilots just like that with our institutions. We've got to encourage institutions who are willing to look at new technologies and new ways to doing back office operations to take those on and let other institutions know hey, that made our -- that made our exam that much more successful and when you get out and spread those, right, good news, it will come back and hopefully –

CHAIRMAN MCWILLIAMS: Unless it was clunky, in which case we would like you to not spread the news.

(Simultaneous speaking.)

MR. MILHORN: We're working on that.

MEMBER KENNETH KELLY: Brandon,

question. I got maybe a little confused. Your previous statistic, 425,000 work hours, is that right?

MR. MILHORN: Yes.

MEMBER KENNETH KELLY: So was it 80 percent of that is applied to smaller community banks --

MR. MILHORN: It was over 80 percent of those hours are spent at community banks.

MEMBER KENNETH KELLY: Okay, and so that's because of process, not normalized --

MR. MILHORN: I believe process.

MEMBER KENNETH KELLY: --normalizing it for sample size?

MR. MILHORN: Right.

MEMBER KENNETH KELLY: So it has nothing to do with who you're sampling and why you're sampling?

MR. MILHORN: Right. Yeah, those are overall hours. We have breakdowns of the data, but I just -- the overall number, because I think that gives you a perspective on the amount of hours that we spend on that topic, and how technology might be deployed to make that more efficient.

MEMBER DeBIASI: And just one quick comment on the risk of -- I can definitely attest to the fact. It's making an impact. Certainly for our institution it's become impactful, and again we do measure it somewhat on the time spent in the institution, because with our ten employees it's all hands on deck while the examiners are in the building.

So anything that could be done to streamline that process, we're appreciative. I think certainly strides have been made, and we're -- it's a game changer for us and it has been. You know on the safety-and-soundness side, I do agree there has to be some interaction. I still believe with an institution our size, what it boils down to I truly believe is at what risk are we to the fund?

With our 30 million in deposits and our capital levels, I still believe 80 percent of our story can be gleaned off the Call Report and there just isn't a whole lot there, that we're just -- I think $30 million for the FDIC is probably rounding in terms of the risk to the fund.

But with that being said, I still believe there needs to be interaction, needs to be a process. But I do believe, you know, that the safety and soundness piece of it, we're hopeful that will continue to move in that direction as well, you know, in terms of the --

MR. MILHORN: That is certainly the plan, and you know, we respect -- I think we need to respect the business model and business approach of all the institutions that we ultimately have to supervise. But if we can encourage additional improvements in the process and encourage institutions to voluntarily take that up, I think that's a great approach that I'd like --

MEMBER PAINE: Brandon, I do have a question. How many community banks are on your

Committee and what is the size range of that? I guess the reason why I bring that up is because when you take about technology, what is in the budget for a $30 million bank is not in the budget for a $3 billion bank?

MR. MILHORN: Sure, absolutely. So we have banks ranging from David Hanrahan's old institution, all the way up to a representative from BB&T. We have banks in between.

(Simultaneous speaking.)

MEMBER HANRAHAN: There's five. There's five bankers on the Committee I think?

MR. MILHORN: Yes.

MEMBER PAINE: So the smallest is 500 million?

MR. MILHORN: Yes.

MEMBER PAINE: Okay, and so percentage of your institutions that you examine, what percentage is that representation? Meaning how many banks do you have that are under 500 million?

CHAIRMAN MCWILLIAMS: Doreen, you

have the number.

MS. EBERLEY: I don't have that number.

MR. MILHORN: We can get that for you.

(Off microphone comment.)

CHAIRMAN MCWILLIAMS: Yeah, 90 percent of loans.

MEMBER PAINE: So I mean that's the concern that I would bring up. If you're focusing on the top ten percent of the banks that you're examining to modernize, you're not --

(Simultaneous speaking.)

MEMBER PAINE: But you see what I'm saying. That is the concern of that --

MR. MILHORN: Yeah. So we understand those costs. We understand those cost constraints, and we're one of the -- at least from my standpoint, I don’t ever want to be in a position where we're unnecessarily burdening an institution with technology mandates. Our goal on the Subcommittee is to look for mechanisms to reduce those costs or to encourage institutions to adopt new technology and new solutions, because it's in their interest.

Maybe it decreases the cost of complying with the cost of participating in exams, or maybe it just makes them more efficient, and maybe there are other mechanisms that we can use to encourage adoption. Those are all issues that we're looking at, because we understand that our community banks don't have the research and development budgets that --

MEMBER PAINE: So are you looking at when you're looking at the smaller banks, are you looking at the statistics saying who's affected under the largest percentage of our banks that we examine? And then how many of those hours are you spending? So how many hours do you spend in banks under 500 million?

MR. MILHORN: Yes. We have that data.

MEMBER PAINE: And so -- yeah. So just curiosity saying, you know, this is the volume of who we're dealing with on a regular basis and the lowest risk.

MR. MILHORN: Right.

MEMBER PAINE: So it's a bit of a challenge, and I understand you having to balance that out because we are the lowest risk. But if it's the majority of the hours, how are you dealing with that?

MEMBER HANRAHAN: Yes. Tiffany, you're raising a great point and let me tell you that in the couple of meetings I've participated in, I applaud the FDIC finding ways to encourage and invite innovation for bankers to adopt. There was one moment where I sensed the conversation was headed towards mandating it, and I made sure to push back on that. I'm not saying that was an FDIC emphasis.

There were some -- there are some non-bankers on the Committee, which was a brilliant idea to have those, a lot of those tech folks on there. But they don't have the same perspective as you and I naturally, right? So where the conversation seemed to be headed towards well, why don't you just tell banks that they have to take all the loan files and do this, I made sure to make sure that us smaller guys were -- our interests were represented along those lines.

MR. MILHORN: You know, as I think about the process again, at least my goal is to make it cost effective for smaller institutions that decide to adopt more technology to do so. Not to mandate it and who to make it a possibility.

MEMBER PAINE: Yeah. It just -- it feels like the -- and it's coming, so but it feels a little bit like when the Fed required the cash letters to be electronic and not the physical checks going back to the Fed, and the conversations that -- and too it's how you present that to your banks, because we literally had the Minneapolis Fed come to us and talk to us and say well, you really don't have a choice and you're not very smart if you don't adopt it.

Obviously that's not a recommended way to go about that. But it is a challenge when you can barely afford the online banking and the IT security, and to have to add this process.

MR. MILHORN: Yes, yes.

CHAIRMAN MCWILLIAMS: And if I can just -- and I think Marty had something to say as well. But if I can just add, the whole purpose of the Modernization Subcommittee was to look at how we can get us to a better place where, you know, for small banks with 10-15 staff, right, and ten the more efficient one, right?

That you know, what I'm hearing around the country is that, you know, we have a staff of ten and you send me three examiners, and the state sends me three examiners and I have eight people dedicated out of my ten to those six examiners, and they are there for three weeks.

Then all of a sudden the bank is not doing the business of banking. They're doing the business of responding to the regulatory body. There's a place and opportunity for that, but if we can get the same quality of the exams, the same -- and by the way Bruce, you'll never be so lucky not to meet our examiners I regret to tell you.

But you know, if we can do more of that stuff and that's why you're seeing some of the -- you know, I like the comments I'm hearing and thank you for that. You know, there was so much work done pre-exam that they walked into our institution fully prepared, that's the exactly the point of this. What else can we do to provide fewer people?

The idea here is not to mandate. I went to Silicon Valley and I met with some tech companies on how they're collaborating with banks. You know, oh you should ask banks to do this. I'm like I'm not asking banks to do any of that. But thanks for promoting your business.

So it's -- the idea is what tools do you need from us and what tools could we utilize to get to that place, because that's where the world is going. And you know, I won't comment on the Fed. I'll leave it to that. Marty, did you have -- you seem to have --

DIRECTOR GRUENBERG: Since you asked, just I thought Tiffany was, made a very helpful point, because I do think the majority and substantial majority of the institutions we supervise have assets under 500 million. So the issues in terms of adoption of technology become particularly sensitive and challenging.

It's one of the core challenges for the future of community banking that we've talked about, beyond the examination process. So you know, being sensitive and thoughtful to the set of issues around that is really going to be key. I think there's room for improvement in the examination process to make it more efficient, and hopefully less costly to the bank and to us, understanding at the heart of it is still a supervisory process of people dealing with people and making judgments about the management capabilities or the individuals running the institutions still remains though, at least from my experience, the heart of the examination process.

So trying to work both sides of that is really the challenge here, and particularly for the smaller institutions where the -- particularly the IT challenge and investment challenge may be greater.

MR. MILHORN: I agree, and the questions the Chairman noted is how can we use technology to enhance that engagement process, and to make the engagement that we have to undertake more effective? So that, you know, we're not taking over your bank for the entire examination period.

MEMBER DeBIASI: Well again, one last point. I think the technology thing is huge, and I think if it could be demonstrated that the FDIC can cut down hours with technology and, you know, obviously would be a financial impact. I was wondering if there's any incentives that would be available in terms of credits to premiums, things like that for implementing certain technology that would create efficiencies and less hours for the FDIC?

I'm just curious if that's even a possibility or legal or if that's something that could be considered.

MR. MILHORN: I think it's something that we can take a look at. Great.

CHAIRMAN MCWILLIAMS: So you want us to pay you not to see us?

(Laughter.)

CHAIRMAN MCWILLIAMS: We'll think about it.

MR. HANRAHAN: That's one way of putting it.

MR. MILHORN: I don't think that's what he said.

MR. DAVIS: All right. With that, unless there's any very, very quick comments left, I will say let’s break for lunch and meet back here at 1:00 p.m.

(Whereupon, the above-entitled matter went off the record at 12:16 p.m. and resumed at 1:30 p.m.)

MR. DAVIS: Okay. If everyone could

please take their seats, we'll get started with the afternoon portion of the agenda. Okay, welcome back everyone. We now have Betty Rudolph, the FDIC's National Director for Minority and Community Development Banking. Betty is going to provide an update on minority and community development financial institutions.

MS. RUDOLPH: Okay. Thanks, Chad. We're just going to talk about a few topics today, tell you a little bit about the industry, a research report that we recently published in June which I think is in your packet, talk a little bit about our FDIC initiatives and talk about a new Committee or a Subcommittee of this Community Banking Advisory Committee that we're putting together, and then finally end with a discussion about Opportunity Zones.

So the MDI industry is 148 institutions across the country. Mostly they're located in urban areas, 238 billion in assets. The median size is about $336 million. So this is about less than three percent of the banking industry overall. I would like to note that three minority depository institutions are represented on this Committee, and so I'd like to recognize Asif, Ken Kelly and Dick Beshear are all CEOs of minority banks.

The definition for a minority bank is that it's either 51 percent minority owned or a majority of the board of directors is minority and the institution they are serving is minority. I'm going to quickly go through. I have a lot of slides on the study on minority depository institutions we issued in June.

It's an update of a research study that we put out in 2014 that talks about the demographics, the geography of the industry, financial performance and social impact. So we updated this study at the request of the industry, and these four findings that are up on the slide right now are what all my subsequent slides will be about, and I'll probably go through the financial performance slides fairly quickly since I know we're constrained for time.

So MDI financial performance significantly improved after the crisis. MDIs consolidated just like community banks, but at a more moderated rate. And then the last two findings there, we do have some slides on the social impact, which is that MDI customers live in low- and moderate-income communities at a much higher rate than non-MDI institutions, and that minority banks are really important service providers to minority populations, and you can see that when you see when you see some of the graphs that we're going to go over.

In terms of numbers, since 2001 we started with 164 banks and I mentioned we're down to 149 as of the end of 2018. There's been a significant change in the composition of that, with sort of Asian banks comprising about 50 percent of the population, a decline in African American banks and a slight increase in Hispanic and Native American banks.

You can see that on this slide from -

- for sort of the asset size on the left. The numbers are 73 Asian banks, 23 African American, 35 Hispanic and 18 Native American. But you can see on the right-hand side the share of assets that those institutions have. Asian banks are, you know, overwhelmingly the largest size, followed by the Hispanic institutions.

In terms of the balance sheet for minority depository institutions, this slide shows the difference between community banks and minority banks, and I guess a couple of the key takeaways from this is minority banks originate fewer mortgages than community banks overall. They virtually do no agricultural lending and the primary focus is on commercial real estate.

So community banks overall, 25 percent in commercial real estate and minority banks, 60 percent.

One of our statutory goals for the minority banking program is to preserve the minority character in cases of merger and acquisition, and that includes failing banks and they're actually statutory factors that we look at when we're marketing a failing bank.

This slide is showing that in terms of the number of assets, that we have done actually a very good job of preserving the minority character in cases of voluntary mergers as well as bank failures. So over 85 percent of the assets of failing MDIs over this 18-year period have been absorbed by other minority institutions.

So the geography of MDIs. This chart just shows that minority banks on the left-hand side, those are metropolitan statistical areas in the pink and the gray, and most minority banks are located in metropolitan areas. If you look at the right-hand side for community banks overall, you can see sort of the dots for community banks headquarters all over the country.

So minority banks really are more urban institutions, and so for the remainder of the study we mostly looked at community banks to compare to minority banks that are not rural institutions.

So I mentioned we'll go quickly through the financial performance slides. What these show is, for example, here are the pre-tax return on assets. The shaded part in blue is sort of the range of observations for minority banks from the 25th to 75th percentile. So you can see in 2009, for example, there were a number of minority banks that had minus 3 pre-tax ROA. So that's sort of the range in the shaded part.

Minority deposits who are institutions are the black line and we're comparing them there to metro area non-farm banks in the sort of reddish color, and non-MDI, non-community banks, so usually larger banks with the yellow line. But the takeaway there is that everybody pretty much in metro areas was affected by the crisis. You can see the range for minority banks was much greater.

The same thing on the right-hand side. MDI credit quality has improved since the recession. Obviously, the range of experience was much higher during the crisis.

Revenue performance stronger at MDIs than at non-MDI, non-community banks. You can see the trend there post-crisis, that MDIs are pretty much on par with other metro area non-MDI institutions. And then on the right-hand side, MDIs generate greater net interest income than their non-MDI counterparts, and you can see sort of the range of difference there between metro community banks and non-MDIs.

So while revenue is a good story, overhead expenses are much higher for minority institutions, which you can see on the left-hand side in terms of non-interest expense. The range for minority banks is much higher in that shaded blue. The black line is much higher than metro area community banks, as well as on the right-hand side just showing the trend and efficiency ratio. Then we broke that out by asset size and showed something here that's probably of no surprise to anyone here, that smaller institutions generally have higher efficiency ratios than larger institutions for many reasons, but economies of scale being one of those.

So take a minute to talk about the social impact portion of the study, and this slide is showing that what we call the median institution, that means on the left-hand side there, African American MDIs, that the median MDI which means that half of all African American MDIs serve populations of African Americans greater than 78 percent and half less.

We used median rather than average to just adjust for anomalies when you have large institutions in that population. So you could say for the average, but we actually use the statistical median. But what this is showing is that a median African American MDI served census tracts with populations of 78 percent low- and moderate-income in 2011, and 69 percent in 2016.

You can see that Hispanics also served greater numbers of Hispanic populations, Asian MDIs. Then the two groups on the right-hand side in the chart show for non-minority metro area banks the rate of serving populations of low- and moderate-income, as well as for non-MDI, non-community banks. So this is showing what we would -- what many minority banks have said well, we've known this for years.

I think that the value in the study is showing that sort of an independent party is actually showing this, and some of these charts are very, very effective in showing that. So here, the median African American is serving African American populations at a much higher rate than non-MDIs.

So African American in 2011 banks are serving 72 percent, census tracts for 72 percent of the population is African American, compared to four percent for their counterparts in the metro areas and five percent for non-MDI, non-community institutions. The same pattern holds true in 2016.

So just run through the rest of these. The same pattern holds for Hispanic institutions and Asian institutions as well. We also looked at the share of Home Mortgage Disclosure Act, folks who file HMDA for mortgages, for properties in low- or moderate-income areas. So you can see here again, African American MDIs, Hispanic, Asian are penetrating those census tracts at a much higher rate than non-MDI institutions.

The same goes for HMDA mortgages for African American populations, for Hispanic populations and Asian populations. The last group of indicators we looked at were the share of SBA 7(a) loans, Small Business Administration loans originated to businesses in low- or moderate-income census tracts.

That was also much higher for MDIs. There was some change between the years and our statisticians tell us that that was not statistically significant. But for African American and Asian and Hispanic institutions, that was due to sort of the sample size of those populations.

And then for SBA loans, the same

pattern holds. They're serving census tracts with high minority populations for African American, Asian American and Hispanic borrowers. I think I'll pause there and see if there are any questions about the study before I move into some of the other areas.

MEMBER PAINE: Do you track Native American statistics?

MS. RUDOLPH: We do, we do. That's a great question Tiffany. There are 18 of those institutions, but because many of them are located in rural areas and because there are small numbers, for example, of SBA loans, they were not included in that social impact section of the study. But we do focus on them very closely.

Okay. So at the beginning of 2019, we set some ambitious goals for 2019 in terms of increasing our engagement and collaboration with minority depository institutions, and we have scheduled some collaboration roundtables. Some of you that are on the Committee might remember

I presented in October about a collaboration resource guide that we published at the end of 2017 that talked about how minority institutions could collaborate with larger institutions, with non-minority institutions and those institutions might be able to receive some credit under the Community Reinvestment Act.

We've promoted that at a lot of our minority roundtables. We sent out a financial institution letter to all institutions talking about that, and what we're trying to do this year is really sort of engage institutions in building partnerships together.

So we hosted at the end of June a roundtable where this was a pilot. We invited ten large institutions, ten billion or larger from our New York region to meet with seven minority institutions in our New York region, and to sit down and talk about partnership opportunities.

Prior to that meeting, each institution filled out a little template which was organized around CRA categories, so lending and investment test. So minority banks filled out, you know, here's what would be on my wish list for partnering, and large banks said this is what I would really like to partner with.

We received very good feedback on that session, and we'll be following up in about 90 days towards the end of September to check in on sort of partnerships that have taken place. But what we found that when people are meeting and talking, it's a lot easier to facilitate those partnerships than when we're just sending out a resource guide. I think Dick you had a question about collaboration earlier, what can we do to facilitate institutions knowing more about CRA credit they might get from partnering.

That came up at our 2019 interagency conference in June as well, and we have kind of a three-pronged effort on that. The first one is that our CRA policy folks are working with the OCC and the Fed to find a way to put something on the performance evaluation form for CRA that specifically acknowledges MDI partnerships.

And then engaging in some examiner training and also doing additional outreach, which could involve working with CRA officers' associations and others to sort of publicize our resource guide that talks about collaboration.

MEMBER BESHEAR: Thank you.

MS. RUDOLPH: Yeah. So we're planning another roundtable now in our Atlanta region for later this year, and we'll continue to sort of cycle through our regions. I mentioned the 2019 interagency conference we had. I think we got very positive feedback on that. I think that minority banks enjoy that opportunity to come together and network, and also learn about specific topics.

We're conducting a number of webinars. Our main focus sort of from a national perspective has been on franchise marketing. So when I -- not that we have lots of failures. We heard this morning we haven't been having many failures. But we want institutions to be prepared and to be knowledgeable about the process for bidding on a failing institution.

So we've held three nationwide webinars so far this year for minority bankers on sort of how to follow that process. And as I mentioned earlier, there are specific statutory benefits for minority banks. We market nationwide to all eligible minority banks when a minority institution is failing.

We do have a pretty robust technical assistance program which is ongoing, as well as outreach. We offer to have our regional director meet with the Board of Directors of any minority bank once a year, and then the research study we just talked about. And then the final initiative I wanted to spend a couple of minutes talking about is a Subcommittee of the CBAC, of this Committee, that we're putting together to focus exclusively on minority depository institutions.

So it will be focused on identifying tools and resources to support MDIs and identify any barriers to profitability and ability to serve customers. Similar to the Supervision Modernization Committee that Brandon talked about earlier, that Subcommittee would be structured to report back to you all as a Committee. Under the Federal Advisory Committee Act, we're not actually able to receive recommendations directly from Subcommittees, but we can from the full Committee.

So our goal is to have a first meeting later this year in the fourth quarter, and we're putting together the Subcommittee initial membership list now. Ideally we'd like it to be eight, but certainly no less than six CEOs of minority depository institutions, including one of you on this Committee. I think it would be helpful to have a bridge between the Subcommittee and the CBAC Committee.

So I think I will pause there and see if there are any questions or comments about our MDI initiatives this year.

MEMBER DAKRI: Betty, I think from my side, I think what would be really important would be the collaboration efforts and getting a bit more clarity for the larger banks or the non-MDI bank to see what actually benefit do they get with partnering and collaborating with an MDI. I think that's been the biggest issue that we've seen out there, is that the other banks don't understand what benefit there is, you know, from a regulatory standpoint too as far as CRA and things of that nature.

MS. RUDOLPH: Right.

MEMBER DAKRI: So I think whatever you can provide to help clarify that, that would be great. It makes our life easier too when we go. We keep on telling them, hey you get this and they're like I don't see it.

MS. RUDOLPH: Right, right.

MEMBER DAKRI: So --

MS. RUDOLPH: Okay, good. Thank you.

CHAIRMAN MCWILLIAMS: And I've been talking about it as I go around the country and telling banks that there may be a missed opportunity for them here, especially if they say that they are looking for CRA credits. Partnering up with an MDI could provide that venue so --

MS. RUDOLPH: The last topic I wanted to talk about is Opportunity Zones. I wanted to do just a quick show of hands, you know. How many people heard of Opportunity Zones?

And what we're thinking about is -- so I think most of you know it's a tax provision that was in the 2017 tax bill. Governors have approved or IRS I guess has approved 8,700 zones across the country. There's no specific role carved out in that tax provision for banks, but it is a business opportunity with investment in Opportunity Zones, you know.

Estimates are fairly high of capital that is deployed in those zones. I think they're about 190 estimated Opportunity Funds today, and so what we've started to do is just engage in how can we, the FDIC, become involved in maybe facilitating ways for banks to take advantage of this opportunity.

So one of the things we're looking at is the President signed an executive order creating a White House Council on Opportunity and Revitalization, and it includes a dozen cabinet agencies. There's an opportunity for independent agencies to be part of that, and so one of the things we're looking at and working with, the Department of Housing and Urban Development is in the lead on that initiative.

We've been talking with them about adding Chairman MCWILLIAMS to the Committee. One of the things she could bring is sort of the voices of rural banks, community banks, minority banks, CDFI banks to the Committee, which doesn't really have any direct representation in terms of the voice of bankers at the table.

And so we thought this Committee, in addition to other, our other advisory committees, might be a source of information from you all who are on the ground. Because it's a tax provision and it's not a federal program, I think that a lot of agencies are having a hard time sort of getting ahold of what's our role here.

The nice thing about the Council is that it's supposed to be looking for ways to remove barriers and find incentives for really encouraging investment in these economically distressed areas. So that's one of the things we would be looking for you, maybe potentially at the October meeting, to have a longer discussion about what you all are seeing out there on the ground.

CHAIRMAN MCWILLIAMS: And I think that is a fair question. Do you even know which Opportunity Zones are in your areas? Have you like mapped out your geographic coverage? So if I end up being on this Council, I would love to get your input as kind of your representative as I go there, as to what community banks in those areas would need.

MS. RUDOLPH: So the other thing we did, we have some things we can bring to the table. We recently did some mapping exercises where we mapped out the Opportunity Zones with a special look at tribal areas. And so you can see where the 8,700 Opportunity Zones are located.

The other thing we did is look at for different types of institutions, where bank headquarters are and where their branches are, and sort of the percentage of branches and headquarters in Opportunity Zones. So you can see there in blue for community banks, 18 percent of their headquarters are in Opportunity Zones; 14 percent, almost 15 percent of their branches. CDFI banks, a little bit higher percentage on their headquarters, 29 percent, 21 percent of their branches.

For minority banks, 21.6 percent of their headquarters are in Opportunity Zones and almost 31 percent of their branches. So we think there's some opportunity here. I think we would, as the Chairman said, we would like to hear from you maybe at the next meeting of sort of what are the barriers and is there something we can do. Alan.

MEMBER SHETTLESWORTH: Betty, is

there any conversation going on about the possibility of if a bank or any bank lends in, specifically in an Opportunity Zone, if that would be automatically eligible for CRA credit? Is that in the realm of possibilities?

MS. RUDOLPH: So that has been discussed, and I think the answer is not automatically. But we have been meeting with our CRA policy people to look at that. But I don't think it would be sort of a blanket, yeah. Good question.

MEMBER WILLIAMS: Excuse me, we happen to be actually headquartered in an Opportunity Zone and the way they went about it at least in Utah was kind of interesting. The cities could identify and recommend areas for these zones, and very few did it.

But I have spent a little bit of time with the Mayor of the town we're headquartered in, and what they're finding is the biggest issue is understanding of the program out there and what it's for and who can qualify for it and how it works.

We're ready to lend as much as possible and it's a pretty good deal. Frankly, a lot of the Opportunity Zones, I think if you drove through some of the areas you wouldn't describe them as Opportunity Zones. We're right in the middle of a tech hub. There's an old part of town that's included, and a significant part of town, that there's a huge kind of redevelopment opportunity for people to step up for but nobody's aware of it.

MS. RUDOLPH: Have you -- are you aware of qualified Opportunity Funds within that area?

MEMBER WILLIAMS: No.

MS. RUDOLPH: Okay. So one of the things that we're looking at as sort of serving as a resource, and I know there are a number of them out there, but sort of publishing on our website. Where are the Opportunity Funds? There are others that have compiled this. Because it's not a federal program though, it's sort of a voluntary basis so there are different groups that are compiling this information.

But we could put on our website sort of sources that you could look to, to look at that, because I think ultimately it really comes down to your state and local laws on investment, on taxes and incentives. So that's not something like from a federal program level that's really easy to do. But we think we could provide some resources at least, yeah.

MEMBER WILLIAMS: It would be helpful.

MS. RUDOLPH: Okay.

MEMBER KENNETH KELLY: Betty, you mentioned the number of funds that you have a count of at this point. Is there a number? Did you mention 100 plus? 180, 190?

MS. RUDOLPH: I mentioned 190 so --

MEMBER KENNETH KELLY: 190.

MS. RUDOLPH: So I think there are a couple of different sources of that. Novogradac is a company that has done a lot of work in this space. So they've reported 197, and then there's a National Council of State Housing Agencies. They've compiled a lot of information on these funds and what types of investments they want to make. There are about 160 there. So --

MEMBER KENNETH KELLY: Okay, great. Thank you.

MS. RUDOLPH: Yeah, and increasing all the time I might add.

MEMBER KENNETH KELLY: Thank you.

MS. RUDOLPH: I think the last slide we had was just to show for committee members. We have four of you that are -- actually have headquarters located in Opportunity Zones. So Tiffany, I think your institution. Len, Kenneth Kelly and Dick, right, are all in Opportunity Zones. Yeah. So we'll tee that up if you all think that would be worthwhile spending of our time for the October meeting.

MEMBER KENNETH KELLY: Yeah. There's a lot of buzz around the country on this topic, and I think Len said it best. People, there's a lack of understanding of how to engage in the process. Most people know that it's there, but what does it mean to engage? I can tell you I've had conversations at fairly high levels at the state level on this topic. There are some funds that are looking at nationally how do you really compile a fund and then most important how do you figure how to invest those funds in these specific areas.

So I believe that the banking industry should be and figure out how to be a leader in this space. It's just kind of what we do and I think we should be leaders in being sure that these dollars are deployed into these less-privileged areas, to create jobs and create opportunity.

So I'm looking forward to the October discussion on that. We'll be happy to participate.

MS. RUDOLPH: All right.

MR. DAVIS: Great. Thank you, Betty. Next up we have updated Money Smart Financial

Education materials from our Division of Depositor and Consumer Protection. Our presenters are Luke Reynolds, who is the chief of Outreach and Program Development, and Bobbie Gray, who is a supervisory community affairs specialist. Thank you.

(Pause.)

MR. REYNOLDS: Good afternoon Madam Chairman and members of the Committee. I'm pleased to share some updates on the Money Smart Financial Education Program. I think everyone here knows of Money Smart.

I just want remind everyone that there are Money Smart materials starting for children from kindergarten all the way up to older adults, and there's some discussion this morning on older adult curriculum.

We recently surpassed one million copies ordered of Money Smart for older adults, and Money Smart for older adults recently received an award from the American Society of Aging. We're going to hear talk today is our most recently updated Money Smart product, Money Smart for Adults.

This is the most recent update of the original Money Smart product that we first released in the year 2001. That was recently updated informed by research and feedback from banks and other organizations that have used Money Smart over the years. It still has an emphasis on real-life skills and choices, and its goal is to provide participants with practical knowledge and resources they can use to manage their finances and options to move toward a banking relationship.

Options to move towards a banking relationship is important because having a bank account is obviously a key stepping stone to economic inclusion and economic opportunity. The target audience for Money Smart for Adults are adults who have low- or moderate-incomes, who have limited or no experience with financial institutions, who are establishing their financial lives and who want to improve their financial situation.

For example, there are more than one in four people in the U.S. who are unbanked or underbanked are an excellent example of the target audience for Money Smart for Adults. But that said, Money Smart for Adults is flexible enough that it can be used with other populations. For example, we see it used in workplaces with employees who earn more than low- or moderate-income.

The 14 modules cover topics such as basic bank products and services, developing a spending and saving plan, managing debt and making safe and affordable housing decisions. In particular, we have modules on credit and preparing financially for a disaster. Every module includes materials for the trainers as well as the participants to take home.

Each module is broken up into sections. For example, the module on credit reports has sections specifically on what's in credit reports; how to build, repair, and maintain a credit history; and disputing errors. Bobbie will now talk a little bit about how we promote Money Smart and how banks use Money Smart.

MS. GRAY: Thank you, Luke. Good afternoon Madam Chairman, Committee members. Thank you for this time to speak with you today. As Luke mentioned, he's talked about the Money Smart. I'm just going to share some of the resources that we have available to support those delivering financial education.

We have instructor supplements. We have a comprehensive guide to presenting. One doesn't need formal training to conduct Money Smart. Everything a trainer needs is included in this guide to presenting. We also have new with the release of the Money Smart for Adults real-world scenarios for financial inclusion, and that's for instructors who are -- have people with disabilities in their class. So it's real-life scenarios for them.

In addition, for promotional

resources we have a variety of flyers and cards. We offer some train the trainer. We have promotional videos. We're going to show you just a small snippet of one now if that's okay. It is from Module 6 that Luke just discussed, about credit reports.

[VIDEO PLAYING.]

MS. GRAY: So that was just a snippet of one of the promotional videos that we share with our stakeholders, as they are -- as we want them to use the Money Smart curriculum. Credit remains one of our popular topics in the new curriculum. So this short promotional video is posted to our website, just so that they can find out what's in this module.

In addition, we offer some virtual training on webinars. We do, we host one quarterly in addition to some that we can customize for financial institutions and our Alliance partners, which I'll talk about a little bit more. Also here in headquarters and our colleagues nationwide, we also offer some free train the trainer.

So what are some of the ways organizations use Money Smart? I'll just quickly share a couple of examples from some of the financial institutions. For example, one of the groups of financial institutions partnered with other community groups and government entities using the Money Smart in their coalitions since its inception in 2014.

Some of the work that they've been able to do is volunteering at homeless shelters and substance abuse centers. There was a community bank in Chicago who's been using Money Smart for five years and they've partnered again with other municipalities and libraries and community groups. So they host the meetings for local citizens. They also serve as guest speakers, as well as Luke mentioned, offering the training through financial wellness to their own staff.

Then finally one other example, I have many and they share with us through some of our one-on-one calls with partners, some of the outreach that we do at partner meetings and our Alliance peer-to-peer trainings. But for example, one bank reached out to talk about perhaps cobranding the Money Smart, so that they would offer it to their employees, but then bring it to their community, to individuals of all ages through their community development staff.

We also have an online newsletter, Money Smart News. Individuals can subscribe. Here, they will receive alerts when the Money Smart program is updated. We also share best practices and stakeholders will share their success stories and lessons learned on how to use the curriculum.

You heard me just mention our Alliance, because collaboration for us is key. So we're successful at collaborating and training organization staff to deliver the curriculum versus Bobbie Gray going out and maybe teaching one class herself. And so we call them our Money Smart Alliance Program, and to date we have more than 1,200 Alliance members.

We streamlined our process to be online, so we're happy that in addition to some of the partners we had since inception, we also have some brand new Alliance members. They agree to teach and promote the Money Smart. They host trainings. We encourage them to collaborate. We encourage them to reach out to financial institutions and other stakeholders in their area.

We have an interactive online website where they can search to see what other partners are in their area. Again, they can also serve as peer-to-peer, in our peer-to-peer trainings that we host. They can also influence any updates we hear from them, as Luke mentioned. When we're seeking to update the curriculum, they also serve as training sites and test the curriculum.

So again, our model is FDIC. We supply the resources and provide free training to instructors. The instructors will then deliver the training into the community, and then we feel that participants are able to make sound financial decisions for themselves through the confidence and knowledge through practice.

And finally, we have on our website again, this is where you will learn how to access the curriculum, other strategies for financial education around youth savings and through youth employment, and join the Alliance. Thank you.

MEMBER SHETTLESWORTH: Can I just add a comment? Just to give you guys some real world perspective from what we've done with this. About a year, year and a half ago we started working with an organization in Albuquerque that reached out to us, because they're trying to develop this program to effectively go help folks pay off their title loans. There's a huge problem with that in New Mexico.

This is a program. It's a faith-based organization. It's across the country, and this program actually started out of Texas, either Dallas or Houston, and they're expanding it over here. So I worked with them in the last year. So our bank has worked with them to kind of develop the forms and applications they need.

But the whole key to the program here is that this organization will assign two people per -- to kind of mentor this group. So the loans are designed to be 12 to 24 months or whatever, but they're going to mentor them during this whole process because financial education is probably the biggest piece of the puzzle.

And so as soon as I -- we literally closed our first loan. It was like a $1,200 loan for these folks. It's going to save them -- in at least 12 months it's going to save them like four or five hundred dollars. It's kind of ridiculous.

But then as soon as this SmartMoney email from the FDIC within the last 30 days, whatever, I forwarded it over to them because I wasn't aware of the train the trainers piece, and this is exactly what these folks are doing. Because our staff, we don't have enough time to be able to do this with all of our customers like we would like.

But now that this material is there, as soon as I head back, I'm going to send this off to them because this is perfect information for them. So --

MR. REYNOLDS: Thank you sir.

MS. GRAY: Thank you.

MEMBER EPSTEIN: Is there any component here on entrepreneurship, or is there any thought to expanding the scope of the program to cover entrepreneurship? The reason I ask, we had an opportunity to create a focus group with the high school in our market. We have a virtual enterprise class, and we had participated in some of the interviews as the students interviewed for the various senior positions within the organization for the school year.

We took it a step further and invited the class to literally step out of the classroom and into our board room, and we had them provide us feedback on our products and services, our facility. We went over our -- we did sort of a mini-presentation of what we do to, you know, at our annual meeting and encouraged them to ask questions and so forth. It was really energizing to see the enthusiasm that the students had.

But for lack of any kind of a curriculum, you know, it was a sort of a one-off, and it may be something that we would do each year with each incoming class. But if we had a curriculum and I'm certainly not qualified to construct one, but that you all might be able to put forward, then that's something that we could continue with and maybe build upon.

I know that in some of the smaller communities where there aren't necessarily opportunities to work for larger companies that have a variety of positions and advancement opportunities, you know, the citizens are really either faced with the choice of moving out of the community to go to work for a larger company where there is opportunity, or if they are so inclined, become entrepreneurs.

That certainly would benefit us long term and give them a greater ability to stay home, if you will.

MEMBER KENNETH KELLY: Was that included in your Smart, Money Smart for Small Business or no?

MR. REYNOLDS: Yes. So there's two answers to that question. On the youth side, we have two modules in Money Smart for young people, the grade 9 to 12 curriculum. I believe it's modules -- I mean lessons 21 and 22. It's just -- it's all about entrepreneurship. So it will be perfect for setting -- it could be perfect for a setting such as this.

So lesson plans for teachers to help young people understand entrepreneurship, and we would welcome input on how we can better promote those lessons. Then the next panel just after us for adults will hear about Money Smart for Small Business, which is our curriculum in partner -- that we developed in partnership with the U.S. Small Business Administration.

But beyond those two resources, we invite other ideas and we'll certainly give some thought on how perhaps we can figure out how in a setting such as yours, we can better support banks in using the lessons from Money Smart for young people.

MEMBER EPSTEIN: Well, that sounds like you have some good programs and maybe it's just a matter of awareness on our part and some of the other banks. So thank you for promoting that.

MR. REYNOLDS: Thank you.

MEMBER WALKER: What about student loans? Have you thought about adding something in here for that just in general?

MR. REYNOLDS: We do. In Money Smart for Adults, we have content for people who have student loan debt, to help them understand the resources available to them. In Money Smart for young people, we don't want to duplicate what other agencies have. So we provide information that helps an overview of options and then helps people connect into the great tools from federal student aid, the Department of Education and the CFPB. So yes we do.

MEMBER KENNETH KELLY: Good job.

MR. REYNOLDS: Thank you.

MS. GRAY: Thank you.

MR. DAVIS: Thank you very much. So it is 2:15. It is 2:15 now. Let's take a ten-minute break, and then I think we're going to flip the next two sections because we have some outside folks joining us for the SBA session. So back here at -- between 2:25 and 2:30.

(Whereupon, the above-entitled matter went off the record at 2:17 p.m. and resumed at 2:32 p.m.)

MR. DAVIS: Okay. We're going to go ahead and start the next panel, because I know we've got a few people that need to leave here shortly for flights. As I said, we're going to flip the next two panels. So now we're going to start a panel discussion with FDIC and the Small Business Administration collaboration efforts.

Lekeshia Frasure, Frasure, who is acting chief of Community Affairs in our Division of Depositor and Consumer Protection will serve as the panel moderator. She is joined by Allen Gutierrez, who is an Associate Administrator in the SBA Office of Entrepreneurial Development; Emerson Hall, Acting Associate Director in the Division of Depositor and Consumer Protection; and Jim Watkins. Thank you.

MS. FRASURE: Good afternoon Madam Chairman and Committee members. I have the honor of moderating this panel today as it relates to the FDIC and Small Business Administration collaboration efforts. Our first speaker today will be Mr. Allen Gutierrez, which is the Associate Administrator for the Office of Entrepreneurial Development at SBA.

Allen will provide us today an overview on the responsibilities of the Office of Entrepreneurial Development at SBA, in addition to the SBA's three response partners, Senior Core of Retired Executives, better known as SCORE, Small Business Development Centers, also known as SBDCs, and Women Business Centers.

Our second speaker today will be Mr. Emerson Hall, Acting Associate Director in our Division of Depositor and Consumer Protection. Emerson's remarks will highlight three areas particularly: the FDIC's relationship with the Small Business Administration; he'll share some examples of small business initiatives conducted and/or coordinated with the SBA in our six regions; and also a brief overview of the FDIC and SBA developed tools to assist bankers, small business owners and small business technical assistance providers.

Lastly, we will have Jim Watkins, our Senior Deputy Director for our Division of Risk Management and Supervision, who will address any questions that are related to how examination staff consider and analyze SBA loan portfolios during our bank examination. I'll turn it over to Allen.

MR. GUTIERREZ: Great. Thank you

very much. Good afternoon. For those who are leaving on a flight, can you raise your hand?

(Show of hands.)

MR. GUTIERREZ: All right. Don't ask any questions, we can get through this.

(Laughter.)

MR. GUTIERREZ: Just kidding. So it's great to be here and certainly as we're mentioning the subject matter in terms of our partnership, which is something at SBA the last couple of years, last two years to be exact, that is one of the many things that we're doing at SBA is creating that stronger partnership with, amongst other agencies in that aspect.

So we not only hear from our hot off the press. We have an MOU with the FDIC in working together in a lot of the areas. More specifically from an aspect of the lender relationship side and our Office of Capital Access. But another example outside of here, for example, we have a strong MOU with USDA, with Agriculture I mean and so -- and other agencies that we're looking at.

How do we maximize what we're doing as it relates in the small business sector, in entrepreneurship, in access to capital and so forth and government contracting, and how do we complement or work together, maximize the economies of scale with other agencies?

So certainly I have Linda Riley here with me as well. She's from the Office of Capital Access, so I wanted to introduce Linda as well. I know that you guys had some snacks out there, but certainly I was going to bring a cake and you're going to say why? Because today's the SBA's birthday. So it's -- we turn 66. So we have one more year and then we can retire.

(Laughter.)

MR. GUTIERREZ: But we're excited. You know, we certainly continue to look at a lot of ways, you know, certainly how the agency was created in the 1950's is not where we're at now, and certainly technology, partnerships, and communities, and everything else associated is what can we continuously be from our previous administrator, Administrator Linda McMahon, looking at ways to really have the agency in the 21st century and how can we be readily available for all entrepreneurs and business owners across the country, not only in urban areas, but also rural areas too?

There's a lot of things that we're doing out of my office that relates to that, from that standpoint. So as Lekeshia mentioned, you know, certainly the Office of Entrepreneurial Development is one of the four houses that we would say. There's the Office of Capital Access, there's the Office of Government Contract and Business Development, and then the other one is the Office of Disaster Assistance, which a lot of individuals, you know, everyone’s familiar with FEMA when there's disasters happen.

But SBA, we work very closely with FEMA, and a lot of the things that we do and we provide not only assistance in disaster areas to business owners, but also homeowners in a lot of different areas in that aspect. So that's the other hub.

So from my office, we have what I call the three lanes per se, you know, in the highway, which is the Small Business Development Centers, which is over 900 centers across the country that provide counseling and training to entrepreneurs and small businesses. That's primarily the distribution channel is through the host organization is primarily institutions of education. So universities from that standpoint.

There are 63 of them across the country and then it goes down, dwindles as they then create a stronger footprint in either the region or their state as it relates to being readily available in terms of service centers from that standpoint.

Then we have the SCORE, senior retired individuals. So those are retired executives that are over 300 offices across the country that provide assistance for primarily really to be honest the target mark there is very entry. I have an idea, I have a thought, I have something that I'm thinking about doing. How do I get started or what do I do?

And it's not only how to get started but a lot of times too the counselor, the mentor really assists him or her. Sometimes it's saying well, you sound like you really -- is this not the business you're doing? You want to get into this arena. So a lot of times it's redirecting them and assisting them, and trying to cut off some of the failures as it relates, you know, entrepreneurship and starting a business from that standpoint.

And then the other lane I'd say is the Women Business Centers. The Women Business Centers, we have over 114 across the country. I was just in Idaho last week, and we opened up two new centers there in Idaho. We have a couple of states that in the next couple of months we are going back and announcing the opportunity, South Carolina, Mississippi, Alaska and West Virginia.

Currently, we're not -- we don't have a Women Business Center. Either they self-terminated or have dropped out. So we're in the process of doing the bidding. These are all grants per se by the way, all these three lanes from the standpoint overall. So those I would say, those are constant, those are the main three lanes.

I don't know if in your states do you have HOV lanes or hopefully you don't have to pay for them. But now it seems like every HOV lane you've got to pay, right, which is if you don't have that pass then you can't go through. But so I call the other area the HOV lane.

Those are the initiatives, the areas that we look at are what are the things that from the vision of the Administrator and myself as well, that we can look at, think outside the box of reaching out to more entrepreneurs and so forth.

So some of the recent ones. One, for example, regional innovative clusters. Those are individual locations that are more in detail. You take one step down from any of the resource partners that I mentioned, and what they are is like for example in St. Louis it's biofuels region automated cluster.

So if you're into -- in that particular industry, you go to that particular cluster and get a lot of hands on approach, and assisted in the next level per se of contracts and opportunities, private sector and the government side as well.

We have -- or I just recently announced a month and a half ago a match competition. It's not for individuals; it's for individuals that want to start and get involved in their idea. What I mean by that is I don't know if you're familiar, just a show of hands. You heard about Maker Spaces. Anybody familiar with Maker Spaces?

So I was given an example of, you know, the individual down the street starts making cakes and everyone's like, "Oh, these are really good cakes. You should really think of starting a bakery.” But they're just starting, you know. They're just doing it for a passion, and they don't have the ovens, they don't have the know-hows and so forth. So go to a maker space that focuses on bakery, and they have all the ovens and so forth.

So they can use the facilities, use all their equipment, but also get training and assistance in counseling on that aspect. So we're excited about that. We expanded that to competition, $1 million across the country. We had an overwhelming interest in it. It's going through the judging process right now. We had over 160 across the country that were interested in it.

We'll be announcing that in the next week or two. In terms of the finalists and rolling that out structured-wise. So we're excited about that in term of Makers. That really, that's an added outside the box approach. It's a very -- there's an association. Across the country, it's growing in a lot of different -- especially in rural areas by the way too.

So we're excited about from that standpoint. We also have Emerging Leaders. Emerging Leaders is a seven-month cohort plan that we -- this year I have over 60 organizations across the country, and that also is an opportunity to assist mainly in emerging markets, in emerging cities in terms of taking that business to the next level.

So they've been in business at least two years, have one or two employees. But we've seen an overall success in these last ten years of the impact it does for that particular business in terms of increase in sales, in terms of increase in employees, expanding and so forth. So a very good track record on that aspect and it's in its tenth year like I mentioned in terms of Emerging Leaders.

I know that earlier there was talk about and we'll discuss a little bit more on Money Smart. But the other thing that we're looking at too is capabilities to have online, right. Not to diffuse the brick and mortar and the infrastructure that we have as it relates to the three lanes that I mentioned, but how can we always be available 24-7 as the Small Business Administration across the country?

Even though we have 68 district offices, we're in every single state across the country and territories and so forth. But as we know, small businesses or entrepreneurs, they're either working full time and thinking of starting a business and sometimes they can't get during the day to our district office or our counseling or seminars and so forth.

So we are later this year we'll be rolling out a women digitalization platform, really to enhance with subject matter experts that really engages the individual for the entrepreneur women that are in the growth states. So a scaling-up approach from that standpoint. Then we're going to be looking at other, other entities as well, other communities to continue that process. Again, bringing the agency to really a 21st century approach.

But on that note, you know, hopefully it gives you an overview of what we're doing, where we're heading, what the impacts that we're doing across the country from that standpoint, and yield over to, back to Lekeshia and look forward to any questions you might have afterwards.

MR. HALL: Okay, all right.

MS. FRASURE: Turn it over to Emerson.

MR. HALL: All right, good. I was sitting here kind of thinking, and I'll share this with you. I was in the meeting this morning when you guys got a chance to kind of give an overview of your markets and your banks, and I was really impressed with that. I'm just glad I had an opportunity to participate and sit in on that.

I want to share a quick story with you. My manager shared something with me yesterday. She said, "Emerson, you're going to be presenting to the Chairman." I'm from San Francisco. I'm doing a detail now. She says, "You're going to be presenting to the Chairman, and so hopefully this goes real well for you. Otherwise, you may have a problem."

So you guys talked about the low unemployment right, and how you need to --

(Laughter.)

MR. HALL: So if this doesn't go very well, you may have an experienced banker that's unemployed. But I just want to share this as well. I know that prayer really works because after my manager told me that, I won't say who she is in here -- she's in here though, I said a prayer and I'm looking around and the Chairman's not here and the former Chairman is not here. So if this doesn't go well and you guys don't hire me, I think I'm going to get a Lotto ticket because it's working out pretty well for me.

MEMBER KENNETH KELLY: It's on podcast.

MR. HALL: That's right. So I'm on.

So I really do appreciate, we really appreciate the opportunity to visit with you guys this afternoon and participate in this meeting and to present to this Committee. I'm going to talk about three primary key points today. First is our relationship with the Small Business Administration, FDIC's relationship with the Small Business Administration.

We're going to give a quick overview of some work that was done with the Small Business Administration in the six regions that we have, and then lastly was a question in regards to the Money Smart for Small Business, and do we have modules to support that and we actually do.

So Allen mentioned the memorandum of understanding. He and I didn't coordinate this, so I was going to talk a little bit about that. But we have a memorandum of understanding with the SBA that guides the work that we're involved in with them. Our Community Affairs team, for those of you that don't know, is comprised of about 35 community affairs specialists throughout the country.

These guys are well-versed in all areas of the work that we do, community development. They have banking experience and also regulator experiences as well on financial regulations. The primary purpose of our community affairs specialists, we assist financial institutions in developing those strategies that are responsive to the credit, service, and investment needs of the communities in which you guys serve and operate.

Our strategies are created to connect financial institutions with opportunities to serve those markets within your bank's footprint or other banks’ footprints that have been difficult to reach. It's also worth noting today that about 25 percent of our community affairs specialists throughout the country, or about one, at least one or more in each one of the six regions, have previous banking experience.

In several instances, and I shared this with you a little bit earlier, our staff's relationship with the SBA is not only broad but deep, and I personally have 25 years, this is my resume.

I personally have 25 years of banking, commercial lending banking experience. So but 20 of those years have been engaged, were engaged in small business lending, SBA lending, lending to communities of color and women-owned businesses, primarily in low- to-moderate income communities.

But I quickly learned by having, wanting to specialize in that type lending, I needed a credit enhancement program and the SBA was and continues to be that product and a primary solution for trying to extend credit in those communities. I have a personal SBA story I'm just going to take a moment and share with you guys.

My wife and I applied for and was approved for two SBA loans several years ago, probably over 15 years ago now, and we got two SBA loans, low six figure loans. One was to acquire a business and the other was to expand to a second location. Without the SBA guarantee, we wouldn't have had an opportunity to most likely do that, and the SBA provides that not only for my family but they provide it for thousands of families throughout the country.

My daughter's actually had a chance to work in the business, and just like -- it was a family-owned business. Some of their friends would come by and ask sometimes well if your parents own this business, why are you working here? My daughter would look them in the eye and say my dad says if I work hard, it's going to build character.

That's what I told her, it was going to build her character, and then also if I have my name on a paycheck, she says if my name is on a paycheck it's going to build self-esteem, which the SBA is providing that for hundreds, if not thousands of families throughout this country. So that's my personal story.

I, as many of our colleagues

throughout the country, the community affairs specialists throughout the country, we recognize the exceptional programs that the SBA has. It's good to know that the SBA is celebrating its birthday today. It's just -- I kind of thought about what Allen was saying, and if at 67 they're going to retire then the community affairs specialists in this country are going to have a whole lot more work to do, because these guys have been some great partners for us.

But they have a group of talented employees. It's extraordinary advantages to the SBA program that they provide to our nation, and the SBA is not only a part of our work in community affairs or at the FDIC, but it's in our DNA, because a lot of small businesses, a large number of small businesses would not be able to obtain financing without the SBA.

I think -- no I'm going the wrong way there I guess. Okay. So the second point that I want to make is I want to provide some brief examples really quickly in regards to some of the work that we've done with SBA in regards to the six regions that we have. We have the Atlanta region, we have the Chicago region, Dallas region, Kansas, New York, and San Francisco.

The Atlanta region, just an example, in the fourth quarter of 2018 convened and facilitated a small business lunch-and-learn workshop with the SBA and bankers. The workshop was targeted to low- to moderate-income communities, and businesses in those communities in Atlanta and the presentation of the workshops were for small business owners.

In the Chicago region, on May 29th, 2019, the Chicago region convened rural Illinois small business roundtable. It was designed to foster productive business financing partnerships between banks and CDFIs and Small Business Centers, which are one of the business resource centers for the SBA.

The Dallas region and Memphis area office during the first quarter of 2018, Community Affairs and the SBA co-sponsored what was considered Mississippi Meet the Microlenders in the Delta. This was a seminar workshop and small business lenders, microlenders got a chance to meet directly with small business owners and microenterprise entrepreneurs in the Delta.

The Kansas region on December 11th, 2018 Community Affairs, in collaboration with the SBA, the Federal Reserve Bank of Kansas City, Omaha branch, in coordination with the business leaders in Omaha, provided or convened an Omaha small business lending forum and provided strategies to increase small business lending in that market and small business education. Emphasis was placed on streamlining the process and the services for small businesses because that's the challenge a lot of times for small business.

In the New York region during the second quarter of 2018, Community Affairs convened a small business lending in rural Maryland forum. Representatives from the USDA, the Small Business Administration and Maryland

Small Business Financing Authority presented information on credit enhancement programs and initiatives for community development managers of banks.

Lastly, the San Francisco region on April 17th, 2018 convened a Washington state interagency banker roundtable.

A lot of the events and activities we're involved in are interagency events with the Federal Reserve Bank and the OCC, and then our good partners at the SBA. It was held actually at the SBA office, and it focused on business development service, including training for small business entrepreneurs.

So I would also like to add that there's a significant number of small business events are held actually at the SBA offices, and it provides either the bankers or entrepreneurs an opportunity to visit the SBA there, where they can find more services. We're sometimes asked by those persons that are supporting small business, and why is the FDIC doing this type of work?

We state that we understand access to capital is what spurs the economy, growth and stability. We understand also that a healthy community sustains a healthy bank. So we connect, we continue to connect CDFIs and technical assistance providers and Small Business Development Centers and bankers.

We also know, because the question is often asked, are we just disseminating the information or are we providing something that's more tangible? We make every effort to try and provide not only information, but we want to try and make sure that we work from an intentional purpose standpoint, and the intentional purpose is to try and ensure that we have outcomes, results and impacts.

So we work from a smart approach, specific measurable, achievable, relevant and time bound. By doing that, we can affect some change. We pride ourselves and we work hard to try and make sure that we have the responsibility every day when we get up to try and help transform communities and to change lives, and that's what we focus on every day.

So briefly I'll talk about the Money Smart for Small Business. A question was asked about that a little bit earlier. But the Money Smart for Small Business, and I know Luke and Bobbie had a chance to talk about Money Smart so I won't spend a lot of time on it.

But it's an instructor-led curriculum. It's free. All the Money Smart products are free. It was developed and being promoted by the FDIC and the SBA. It's in English and in Spanish and was developed in 2012. We're continuing to improve it. As we train and we see needs to update and improve, we do.

It's also a tool for financial institutions and organizations to collaborate and deliver this training or workshops to small business entrepreneurs, or small business owners or entrepreneurs. We recognize, as a previous commercial lender I recognize that a lot of the times and you guys are primarily from some of the smaller towns so you may not have this challenge.

But I was a lender in Houston and in Dallas, and I loaned money in San Antonio and Austin as well. But I know sometimes small business owners are intimidated by banks or bankers. They normally come, I'm not sure exactly at your institutions, but they would normally come to me when they had the strongest need. It's like I need the money tomorrow.

Instead of developing relationships with financial institutions and bankers early on, so the bankers can get to know them. So this gives -- these tools give bankers or community-based organizations or Small Business Development Centers an opportunity to work with those bankers, so they can start to develop sustainable, meaningful relationships with financial institutions.

There's 13 modules, and if you're not familiar with this program, either your bankers or community-based organizations in your market can certainly do this. There’s an instructor's guide, participant's guide, workbook, PowerPoint slides. The Train the Trainer, as Luke talked about earlier, makes it really easy for us to duplicate ourselves.

We'll go out and we can train 12, 15, 20 people because we can't do it all. 35 people can't do it all in the country. But if we're each training 12 to 20 people several times a year, we can multiply pretty well and have a much stronger impact. So that's what we do, train the trainer.

The Money Smart Alliance Bobbie mentioned earlier, we have 1,200 members across the country, and they're also engaged in Money Smart Train the Trainers and assisting small business owners with opportunities.

This is a list of the modules. There's 13 of them. I won't go through all of them but I'll just mention a couple. Is owning a business a good fit for you? The upper left-hand corner. I as a banker, I had been a banker for ten years or so before my wife and I started our own business. I went to SCORE, Senior Core for Retired Executives, I went to the Small Business Development Centers because I wanted to see what they would say.

And they punched me up pretty good. As a banker, I was used to punching other people up pretty good. But they punched me up pretty good, and they told me the challenges I was going to face. But I felt confident, so I went on. So you know, but I think that's what happens. A lot of times, and you guys probably experience this, but as a banker a lot of my friends would come and say, "Emerson, I'm thinking about starting a business, you know. I would like your ideas."

But I didn't want to be a dream crusher because the fact that I'd be crushing their dreams because I would tell them what the reality is, it's tough. So I would send them to the Small Business Development Center or to SCORE, and they would get the real deal. Usually they didn't start a business, because I didn't want to see them invest their money in something that was going to be tough.

So owning a business, that module gives people a good idea. Just because you're good at a certain task doesn't necessarily mean that you should be a business owner. Then I'll move to the last one, Managing Cash Flow. One of the things that I saw, and I think that I still see in the market is that a lot of small business owners are really good at what they do.

But understanding that balance sheet, understanding their income statement, understanding the cash flow statements, they're not very good at it. So this gives those people an opportunity to raise their level of understanding. So on our website, we have a lot of quality, good information that either your bankers or the Small Business Development Centers can possibly go to.

We have, as I said, community affairs specialists across the country. All you guys have to do is give us a call and we'll reach out to you. I'm sure our specialists should be reaching out to you if they haven't already done so. I've got your names and pictures right now, so therefore they will be if they haven't.

So but we have success stories that we share because it does inspire and encourage other people to keep on doing what we're doing, because when people see success, they try and duplicate success. I think that's all I have, and I think we'll probably -- we'll take any questions.

MR. GUTIERREZ: You know before any questions, there was one thing I forgot to mention when I was talking about technology as it relates to what we're doing. There's also that we've rolled out this last year is our Lender Match, online portal too that helps the business owner connect, and we've had over 200,000 already that have been connected and as it relates to what other products that are available that they would be improved by.

If it's an SBA product or a microloan or so forth. So I just wanted to add that. I forgot to mention that.

MEMBER DAKRI: Asif Dakri with Wallis Bank. So we are -- sorry, let me get closer. We're actually an SBA lender. We're a preferred lender. We do quite a bit of SBA loans throughout the Texas area and what-not.

One of the interesting things that I find is that when we have examiners come in, they don't necessarily understand the SBA program, and they have a hard time understanding that unguaranteed is not unsecured. So you know, the SBA 7(a) program, for example, has a 25 percent unguaranteed portion.

The theory a lot of them think is that that means it's unsecured loan. It's really not. There's still the collateral behind what we have and what we're doing. So I don't know if that's something that internally we can have some maybe education for the examiners themselves, to better understand what the products are and why they're there and what they're used for. It would be helpful.

I believe that we do some stuff that's been asked by examiners that really is meaningless in the grand scheme of things but we do it, because they said can you just monitor this for me? I don't know if you have any insights on that.

MR. WATKINS: Well thank you. So there are thousands of banks that the FDIC supervises, and many of them have -- are very active in the SBA program. In fact, there's a number of FDIC-supervised banks that really have substantive concentrations and focused heavily in the SBA area, and we have internally programs for subject matter experts, it could be a subject matter in oil and gas, subject matter expert in commercial real estate and a whole host of items.

We have regular discussions with the SBA, for example, we have semi-annual meetings with the SBA staff here in Washington talking about trends and issues, things that they're seeing, what items that might impinge, if you will, on the guarantee section.

Our expectation for examiners is when they're looking at the books and records of an institution, that the institution have sufficient loan policies and procedures to underwrite the loans, as if it didn't have a guarantee.

The guarantee provides this extraordinary benefit, such that even if there were a criticism of the loan, as long as the bank was following its requirements for the SBA, the portion of the loan that's guaranteed by the SBA would not be subject to criticism.

So that's kind of the thrust of our training, and we do have loan training schools and programs that talk about the SBA program. But we can certainly take back some of your suggestions on that, to make sure we have a better understanding for our examiners.

MEMBER DAKRI: Yeah. I find that we do a lot of educating a lot of times as we're going through the process on some of the loans and what-not, trying to kind of educate the examiner on what the product is, how it works, what goes on, etcetera, etcetera, etcetera. By the way Emerson, if your key card doesn't work tomorrow, we're in San Antonio, Dallas and Houston so --

(Laughter.)

MR. HALL: Okay. Well, I appreciate that. I'm familiar with Wallis Bank as well.

MEMBER DAKRI: Thank you.

MR. HALL: I'll let you know. I'll give you a call.

MR. DAVIS: Okay. Anything else? All right. Thank you very much to the group. I'm going to ask Jim to stay.

MEMBER KENNETH KELLY: Happy birthday I guess.

MR. DAVIS: Yeah.

(Off mic comment.)

MR. DAVIS: Okay. Next, we're going to ask Jim to give an update on the FDIC efforts on de novos. At our last Committee meeting in March, he also gave us an update and so I'll now turn it back over to Jim to discuss what's happened in the last few months.

MR. WATKINS: Thank you, Chad and good afternoon again. Today, I'll provide an update on recent de novo activity and our continuing deposit insurance application-related initiatives. Interest in de novo activity or forming a new bank continues. Since our March meeting, the FDIC approved two new banks. FDIC staff is currently reviewing 13 applications for deposit insurance.

We are actively engaged with a number of organizing groups that are exploring potential applications as well. In some cases, the organizing groups have submitted, or are considering submitting a draft application proposal under the process that the FDIC announced in December of 2018.

Under this process, organizing groups may request the FDIC to review the draft insurance proposal prior to filing an official application. The FDIC will review the draft proposal to identify any potential issues, and provide preliminary feedback to the organizing group so that they can fine tune their proposal before submitting a formal application.

The FDIC supports the formation of new banks, and staff is available in each of our regional offices to assist organizing groups during the application process. Since my last update in March, we began publishing updated sections of the applications procedures manual, which provides instructions in the review and processing of regulatory filings.

We will publish the remaining sections of the manual later this year. This resource and in particular the overview section, serves as an additional aid for organizing groups. For instance, the overview section provides expanded discussion for determining whether an application is substantially complete.

This expanded discussion is responsive to industry requests for additional explanation and clarity on that topic. I'm also pleased to inform you that we've updated our delegations of authority so that regional directors can approve deposit insurance applications for traditional community bank applications, as well as any change in business plan without consultation from the Washington Office.

We are also going to be issuing shortly an interpretive question and answer, a Q and A, clarifying that a specific physical address is not required at the time a deposit insurance application is filed.

Some of the feedback we received talked about the burn rate or the cost to carry, if you will, of opening up a new facility and this question-and-answer response or interpretive question and answer should help assure that you don't actually have to submit that at the time an application is filed.

These changes were frequently recommended during our outreach events regarding deposit insurance application process, including our roundtable events that concluded during the first quarter of this year and the request for information that was published in December of last year, in which the comment period closed on March 31st of this year.

We expect the actions will reduce cost and aid organizing groups in developing complete deposit insurance proposals. The feedback obtained through the outreach initiatives continues to inform our efforts to support and improve the deposit insurance application process.

In summary, we are striving to improve the deposit insurance application process. Our efforts have drawn on resources across multiple divisions within the FDIC, and have included important information and input and feedback from staff of each of our regional offices.

Opportunities to improve our process and increase transparency are informed by the feedback received through recent outreach efforts and through our ongoing interactions with interested parties.

Thank you for your time, and I'll be happy to respond to any questions, Chad.

MEMBER HANRAHAN: Jim, those are good numbers to hear. It also recently came to my attention that the FDIC has updated its website with de novo applications and process, etcetera.

MR. WATKINS: Yes.

MEMBER HANRAHAN: I found that very helpful and informative, and seems to me to be very consistent with the Chairman's emphasis on transparency and showing what's going on. So thank you for doing that.

MR. WATKINS: Yes, thank you David. We have done a lot of work providing information on our website, just applications in general and the time lines we've been trying to pursue and achieve goals on that. So as part of the transparency initiative, we've done a lot of work in that regard.

MR. DAVIS: Okay, last call for questions. Okay. With that, I'd just like to thank everybody for coming today. That's the end of the program. Special thank you again to the members who this is their last meeting. We very much appreciate the service that you've given us. Again, thank you very one for making the trip here. Director Gruenberg, do you want to say anything?

DIRECTOR GRUENBERG: No.

MR. DAVIS: Okay. With that, despite our initial delays, we're 19 minutes early. So good luck everybody traveling back. Thank you.

(Whereupon, the above-entitled matter went off the record at 3:12 p.m.)