

FEDERAL DEPOSIT INSURANCE CORPORATION
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 ADVISORY COMMITTEE ON COMMUNITY BANKING

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MEETING

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THURSDAY,
 OCTOBER 10, 2019

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The Advisory Committee on Community Banking convened at 9:00 a.m. in the Federal Deposit Insurance Corporation Board Room, 550 17th Street, N.W., Room 6010, Washington, D.C., Brandon Milhorn, FDIC Chief of Staff, presiding.

PRESENT:

BRANDON MILHORN, FDIC Chief of Staff
 MARTIN GRUENBERG, FDIC Board of Directors
 DICK BESHEAR, Chairman, President, and CEO, First Security Bank and Trust Company
 FRED DeBIASI, President and CEO, American Savings Bank
 CHRIS DONNELLY, President and CEO, Bank of the Prairie
 JAMES J. EDWARDS, JR., CEO, United Bank
 KEITH EPSTEIN, Executive Vice President and CEO, Roxboro Savings Bank, SSB
 SARAH GETZLAFF, CEO, Security First Bank of North Dakota
 KENNETH KELLY, Chairman and CEO, First Independence Bank
 BRUCE KIMBELL, President and CEO, First Community Bank of the Heartland
 THOMAS LEAVITT, President and CEO, Northfield Savings Bank

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LORI MALEY, President and CEO, Bank of Bird-in-Hand

GILBERT NARVAEZ, JR., President and CEO, Falcon International Bank

MARK PITKIN, President and CEO, Sugar River Bank

ALAN SHETTLESWORTH, President and COO, Main Bank

CATHY STUHLIK, Chairwoman and President,
Clackamas County Bank

LOUISE WALKER, President and CEO, First Northern Bank of Dixon

LEN WILLIAMS, CEO, People's Intermountain Bank

ALSO PRESENT:

LISA ARQUETTE, Associate Director, Division of Risk Management Supervision

SHANNON BEATTIE, Section Chief, Division of Risk Management Supervision

BENEDETTO BOSCO, Section Chief, Division of Risk Management Supervision

CHAD DAVIS, Deputy to the Chairman for External Affairs

MICHAEL DEAN, Regional Director, Atlanta Region

DOREEN EBERLEY, Director, Division of Risk Management Supervision

KRISTIE ELMQUIST, Regional Director, Dallas Region

WILLIAM HENLEY, Associate Director, Division of Risk Management Supervision

MARTIN HENNING, Deputy Director, Division of Risk Management Supervision

SANDRA KERR, Senior Program Specialist, Division of Risk Management Supervision

M. ANTHONY LOWE, FDIC Ombudsman

THOMAS LYONS, Section Chief, Division of Risk Management Supervision

PATRICK MITCHELL, Deputy Director, Division of Insurance and Research

SHAYNA OLESIUK, Associate Director, Division of Insurance and Research

BETTY RUDOLPH, National Director for Minority and Community Development Banking

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

8:58 a.m.

MR. MILHORN: Good morning. Welcome to October meeting of the FDIC Advisory Committee on Community Banking. We really thank you all for agreeing to be here and participate in this group. Chairman McWilliams is traveling overseas for a speech with the International Association of Deposit Insurers. She regrets that she can't be here. Obviously, she is probably a much better overseer of this committee than me, but she certainly appreciates your time in being here, and we've got a good agenda planned. I will let you guys talk and primarily stay out of the way.

Before we get started, I'd like to take a minute to welcome some of our new members to the Committee who are here for their first meeting. Sarah Getzlaff, CEO of Security First Bank of North Dakota, New Salem, North Dakota. Welcome Sarah.

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MEMBER GETZLAFF: Thank you.

MR. MILHORN: Gilbert Narvaez, president of CEO of Falcon International Bank, Laredo, Texas. Welcome, Gilbert.

Cathy Stuchlik, Chairwoman and President of Clackamas County Bank, Sandy, Oregon. Welcome.

And Mark Pitkin, President and CEO of Sugar River Bank in Newport, New Hampshire. Thank you to all our new members. Welcome to the table. You know, our members serve two-year terms on the Committee and we regularly add new members, to make sure that we've got a broad perspective on what's happening with our community banks across the country. So we are glad that all of you could join us here with some of our older members, our veteran members. So again, welcome to everyone, and I'll turn the program over to Chad Davis, who will moderate today's meeting.

MR. DAVIS: Great. Thank you

Brandon, and I'll add my welcome to the new members especially, but everyone, thank you for making the trip again. We're going to start this morning with our discussion on trends and local issues. For the new members, this is what we talked about, where we go around the table and everybody gets a few minutes to tell the group kind of what they're seeing from their perspective.

After that, we've asked some FDIC staff members to talk about the agency's observations from a national and regional perspective. Shayna Olesiuk, Associate Director of the Regional Operations Branch from our Division of Insurance and Research, is going to discuss the FDIC risk review that was published in July.

We also have two of the FDIC's regional directors with us today to discuss observations of local FDIC staff. Going forward, at each meeting, we'll bring in two regional

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directors. We'll rotate those throughout the year, so that hopefully over the year we'll have voices from all six regions represented.

Today, we have Kristie Elmquist and Mike Dean from Dallas and Atlanta, respectively, and so if I may, I'll start with Kenneth Kelly to my left, and yes, he was aware that he gets on the spot first.

(Laughter.)

So, we will rotate left to right. Again, if you could just take a few minutes and we will work a break into the discussion at some point. I know everybody just had breakfast and coffee -- so Kenneth.

MEMBER KELLY: Great. Thank you Chad. Good morning everyone. I'm Kenneth Kelly. I serve as Chairman and CEO of First Independence Bank, and I'm glad to report that overall, things are going well in our market. I want to talk a little bit about housing, labor markets, and consumer confidence. The housing

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market is a tale of two cities. We have an infrastructure of a lot of dilapidated housing inside of the City of Detroit. In the desirable space, the other side of that tale of two cities is really a limited supply of housing stock that's desirable. We're seeing that there's been a limited amount of skilled labor from the construction perspective, and then we're also seeing developers just being very skittish of going out and supplying speculative homes in that market.

On the labor market side, it's pretty challenged in the market as it relates to skilled labor, and we're seeing that impacting the economy in general. Unemployment in the overall market is about 8.9 percent, versus the U.S. average of 3.9 percent. But overall, we're still seeing a moderation in the overall economy there.

The challenges of the Bank at the local level, we're seeing compression in net interest margins. We're seeing deposit requests

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rising at a rate that's faster than seeing the ability to make loans. In fact, we're seeing with loans, actually, that the trend has been coming down. We're also seeing credit quality begin to change, in that competition for parent guarantees and others is changing the way that people are making loans, so that's a trend that we're seeing. That is consistent with what we're seeing in the discussions that I had last week with my peers at the Federal Reserve based there in Chicago.

(Siri just decided to walk in.) A couple of other topics I'd like to talk about in general -- I think cybersecurity is an issue that many are concerned about. Fintech is a concern we've talked about in the past, but would like to see if there's a position that can be taken where there are some guidelines created around partnerships and what that should look like going forward, because we're facing challenges as it relates to fintech.

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In my role as the National Bankers Association Chair, I'd like to take a moment just to thank the Chair for her support and being there and speaking last week at our conference. I thank Director Gruenberg, Betty Rudolph and others for their support of the National Bankers Association, ensuring that we're continuing to preserve and promote minority banks in the country.

The other thing I would like to talk a little bit about is the unbanked. I think we share the concerns regarding the unbanked and how it disproportionately impacts low- and moderate-income communities and in particular people of color.

One request we'd like to ask is to look at developing some form of a cost analysis towards the unbanked, that will give us an opportunity to have discussions around the importance of getting into the banking system -- so that is a request we'd like to have. So those

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conclude my comments at this time. Fred.

MEMBER DeBIASI: Thanks Kenneth. Good morning. Fred DeBiasi, American Savings Bank of Middletown, Ohio. We'd like to start off this morning by asking a favor of Kenneth to my right and Keith to my left, if they could nudge me this morning and keep me awake after that fabulous breakfast. I think I kind of need a nap. I'm not a coffee drinker, so it's really difficult to stay awake, but that was excellent.

Back home, again in the Midwest, you know, Middletown, Ohio, is certainly in the Rust Belt. You know, things have improved. We are certainly much more stable than we were obviously during the crisis, as most of us are. But just to give a little just anecdotal evidence of what we're seeing now compared to where we were, just as an example, obviously delinquency is virtually non-existent now.

I don't want to -- knock wood -- and not to jinx ourselves. But we're not seeing much

in the way of delinquency at all. We did have a situation this last quarter, where we did have to take a home back due to -- the owner was deceased. He passed away, didn't have any heirs. We ended up -- I'm not going to bore you with all the details. But we did have to take the house back into our REO portfolio.

Again, just to give you an idea. This house was in a middle class, lower middle class neighborhood, and you know, ten years ago, even as recently as five years ago, it probably would have taken six to nine months to even take this property back. It would have been -- our county, I think, was the second highest county in terms of foreclosures in the state of Ohio.

Fast forward to today, we took this house back and listed it with a realtor. Again, not a very -- not a super affluent neighborhood. Within a week, we had seven offers and got more than our asking price for the home. That just gives you an idea where we're at in terms

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of -- and there's a lot of factors that go into that. Obviously inventory is low right now, and there's demand for living space.

So we've come a long way, but again I wonder, we've talked about it earlier, but I was wondering if that brings on another set of problems. You know, is real estate inflated now and are we into a bubble? So, you know, while we feel good about that compared to where we were, you know, five to ten years ago, obviously I can tell you we did not take a loss on that house.

We're talking, you know, in the low hundreds. Like I said, ten years ago, even five years ago, we would have easily lost \$15,000 on the house, we would have taken a loss, maybe even \$20,000 on that same home. So, you know, that's a little bit of anecdotal evidence of kind of what we're seeing. Things are certainly better, not perfect. Unemployment in our community is over five percent, which is above the national average, as Kenneth mentioned, in the high

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threes.

But we feel good. We're in a better place. We feel good about where we're at and hopefully we can continue this trend we're on and with that, I'll pass things over to Keith. So thank you. Thank you for your time and thank you for the opportunity to speak to you today.

MEMBER EPSTEIN: Good morning. Keith Epstein with Roxboro Savings Bank, Roxboro, North Carolina. I appreciate the opportunity to be here and to contribute to this committee. We are a 96-year old mutual savings bank with \$225 million in assets located in Person County, North Carolina, population just shy of 40,000.

We are positioned just north of Durham County, on the northwestern corner of the Triangle, and to our north our rural communities, agricultural communities just south of the Virginia state line. So it gives us an opportunity to bank two pretty distinct customer bases, one metropolitan and one rural.

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Small business and consumer lending are important but complementary portions of our business. Our primary focus is on housing, and residential construction in particular has been a strong and growing segment of our business. Year over year, we have seen an increase in quantity of 14 percent and dollar volume up 21 percent, and the micro-economic impact of the construction loans that we're making is difficult to overstate.

Most of the contractors we're working with are local general contractors using local subcontractors, purchasing their materials from the local supply houses. So we feel like that's a critical role that we play. Those transactions really give us a chance, if you'll excuse the pun, to build a relationship with our customers that can have some lasting value.

The biggest challenge that we find amongst our contractors that we work with and from what we hear in the construction industry is

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a shortage of labor. They have full pipelines, but they can't build out as quickly as their customers would like.

The real estate market is quite healthy where we are. Fred mentioned inventory levels being low in his region, and ours in the Triangle there's what I call a scant 2-1/2-month supply of inventory and in the northern Triangle, where we operate primarily, 3.1 months. These figures are through July 31, according to the Triangle Multiple Listing Service.

The mortgage market is very competitive and very crowded in Durham and Chapel Hill. We do have a small but meaningful and profitable portion of that market. But in the northern portion of our territory, the more rural communities, there is not the same level of competition, and we are committed to being a reliable source of credit and investment in those communities.

I was very pleased to have an

opportunity to review and then listen to the hearings related to the Treasury's Housing Finance Reform Plan. In particular, we were concerned and remain concerned, but to a lesser extent now that we've heard the plan, about maintenance of equal access to the secondary market.

Obviously, we are a small volume lender. We want to have the ability to provide our borrowers with the same pricing and the same products that the higher volume lenders can. It sounds as if there is some bipartisan support for continuing on with the mandates in some form or fashion that will allow small lenders to participate in the secondary market, and we certainly hope that that is built into any new administrative or legislative action that's taken as the GSEs are reformed.

Origination costs are greater in the rural communities, as I'm sure most of you know. It's not the ability to do desktop valuations.

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It's just not the same level of data available for comparables. There's not the ability to do instant income verification or employment verification. Again, you have a number of self-employed, especially those that work in the agricultural field.

For those reasons, not to mention lack of broadband service in some areas that prohibit the transaction from being conducted electronically, the larger originators are just disinterested. Where the subdivisions stop, you know, that's where we play a critical role, and so we hope that any GSE reform will recognize that, and it seems as though there's discussion that is encouraging on that front.

For the first time, more than half of the loans, the mortgage loans originated in our markets are being issued by out of state or non-local online lenders, 50.5 percent. That's up five percent just from the December 31 figures of 2018. So that's a trend that we're combating

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with our own online and new electronic delivery channels for the markets that demand those services.

The Triangle Region continues to lure new businesses. Recent examples just since our last meeting include Policy Genius, an insurance company that's bringing 350 new jobs to Durham. Medline Industries is a medical supply provider. They're going to be investing \$63.5 million in a distribution center in neighboring Orange County, with the promise of 250 new jobs.

And 35 miles north of Durham, where we operate in our small town city of Roxboro, population, 8,362, year-to-date we've had 15 ribbon cuttings for new and expanding businesses. Recent examples include a law firm, an ice cream parlor and a hair salon, and while those small businesses typify our customer base and the kind of activity that we generally have in our small community, we do have some larger industry and a recent example, Polywood, is a manufacturer of

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furniture. They opened their new center in Roxboro two months ago. The ceremony's going to be held at the end of this month, and when that expansion was announced, Governor Roy Cooper was on hand to make the announcement. He proclaimed that there would be 384 new jobs, average wage, annual wage of \$43,000. So that's a big win for our community.

The banking landscape is changing a bit too in our region. J.P. Morgan Chase opened their first North Carolina branch in August, not long after our last meeting. Jamie Dimon was on hand for the ribbon-cutting in Chapel Hill. SunTrust and BB&T are working ever more closely towards the completion of their merger. Each has an office in our town and the SunTrust location is now up for sale. We understand that throughout our state, probably throughout their combined footprint, they will be seeking to achieve some cost savings and some efficiencies through branch closure and consolidation, and we

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think that it's going to provide an opportunity for us, in particular with the smallest of their small business customers.

The northern portion of our county and smaller tracts in urban Durham and Chapel Hill have been designated Opportunity Zones. The Richmond Fed, in conjunction with our local economic development office, recently conducted a workshop for community stakeholders and potential investors, and that did spur quite a bit of interest.

We would ask that the regulatory community consider granting automatic CRA eligibility to loans issued by banks to qualified Opportunity Zone funds for projects that would be occurring within the lending bank's assessment area. It seems as if that would align the interests and the motivations of both the investor and the lender.

The timing seems right in that I know there are ongoing discussions about reforming and

modernizing CRA. We certainly appreciate the FDIC's willingness to listen to our opinion and that of others and the methodical but deliberate way that they are going about contributing to that process.

According to the ABA, there are over \$100 billion in CRA-eligible loans issued annually. So modernizing CRA is not an academic exercise. It's not just a matter of tweaking the examination process or the examination criteria. It really has the potential to steer enormous sums of capital, and in changing in the eligibility of what will or will not grant a bank or a lender CRA credit, it is going to impact the flow of that credit.

We would ask the FDIC and others to pay special -- give some special considerations to -- rural communities who have fewer banks operating in those markets, and perhaps are no longer part of anyone's assessment area. So we ask for that consideration. In summary, our business is very

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good. We're very fortunate. Credit quality remains good.

As the real estate market remains strong, we expect that our prospects will continue to be bright. We are investing heavily in technology. What was to be a 12- to 18-month project to launch a digital platform has turned into an overhaul of really our entire infrastructure. But at the end of this project, we are going to be able to, we expect, to meet the needs of our customers and the next generation of customers in our markets.

So one of our biggest challenges to date is trying to manage these projects. We have 30 employees, none of whom is a project manager with a project management team. So all of us have to just contribute where we can and maintain our focus on our existing customers and the business at hand.

And as others have said, with the Fed's easing and interest rates falling, we have

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not been able to adjust our deposit rates and move those downward without putting our funding sources at risk, so margin compression is a concern. It hasn't impacted us too much to date, but we expect that going into next year, there's going to be a lot of pressure on our margin, and that is something that we're going to have to contend with. I thank you so much for listening.

MEMBER BESHEAR: My name is Dick Beshear. I'm with First Security Bank in Oklahoma City. We've recently here in the last year become designated a minority depository institution. We're kind of still exploring the ways to leverage that to a certain degree. As far as economic conditions in Oklahoma City, we're seeing low unemployment. As a matter of fact, a lot of industries have help wanted signs out. They're having a hard time finding employees, as Keith mentioned, especially in the construction trade. A lot of things are going on, but it's just having a hard time finding

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quality employees.

We're also anxious to see what happens with the cannabis legislation that is hopefully on track to be passed here in D.C., and see if we can -- since Oklahoma passed or approved cannabis or CBD here about a year ago -- we're still trying to figure out what we need to do to go forward in that area.

As far as banking goes, like I said, the economy's basically good. We're starting to see a lot of competition for loans and deposits, and as a consequence, we're starting to see interest rate compression as well. Like I said, basically things are pretty good in Oklahoma City, and I'll just kind of leave it at that and turn it over to Louise.

MEMBER WALKER: (Okay.) Louise Walker, First Northern Bank, and we are located between San Francisco and Sacramento, and so I'll talk about what's going on in our area. We continue to believe that there are considerable

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economic risks due to the length of the current recovery.

There are regional excesses exhibited by extremely high commercial real estate and residential real estate values in the Bay Area. The lack of skilled labor, housing affordability and the sustainability of new home construction -- they all present elevated risk. Having said that, we believe that the overall regional market in both San Francisco and Sacramento is mostly healthy.

Sacramento is one of the top markets in the country based on sales per project, and we do have considerable ag in our area, and ag is holding up well, with walnut prices stabilizing and almond prices actually increasing a bit. There are -- the CRE is a primary concern -- that many competitors are making significant concessions on price and terms, creating additional market risk.

Competition for funding, specifically

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in core deposits, remains strong and some need that to offset borrowings or deposit concentrations. Our loan balances in the first quarter dropped. They were flat in the second quarter due to delays in agriculture planting, construction in general, C&I activity as a result of the usually cool and wet weather this past spring.

However, we've seen a stronger loan and deposit growth in the third quarter. We opened a new branch in a market in our Sacramento area this past Monday. We're getting ready for our first quarter compliance and CRA, so it makes me think about CRA modernization, and I echo exactly what Keith said. We have Opportunity Zones in our area. We actually have an OREO property in an Opportunity Zone, and I thought the piece that you were going to be covering, that was helpful on different things that banks can do. But I think it's important that we know that we receive CRA credits, so thank you for

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bringing that up Keith. Also glad to see on the agenda hemp and the discussion on hemp. Since we do have an agriculture portfolio, we are getting many questions from borrowers who are considering, and actually some are growing it, so clarifying compliance and reporting requirements in that area specifically would be helpful. In California, we're preparing to comply with the California Privacy Act, and deal with the passage of AB 857. For those of you who don't know what that is, that is the formation of the public bank. So we'll be dealing with that and just thanking the Chairwoman on her recent comments on the need for community banks to broaden the adoption of technology, and focusing or commenting on core providers, so that we're able to meet our customers' expectations for a totally digital experience, and for the FDIC Tech Lab project that is being worked on. So that's it. Mark.

MR. PITKIN: Well good morning, everyone. My name is Mark Pitkin from Sugar

River Bank in Newport, New Hampshire. The first thing I want to do is to say thank you for allowing New Hampshire to have its voice around the table. We certainly appreciate that. Sugar River Bank is a 124-year old mutual bank, and we have six branches primarily from Concord, which is central New Hampshire, to the west, which borders Vermont.

An interesting story if I may, because all I was told was I could bring my observations, thoughts and perspectives. So I don't have a lot of the individual detail that others have, but I thought I'd share a couple of stories. So the first one is, I have told a few, but I am incredibly honored to be able to say that I am around this table and I started my career as an assistant bank examiner with the FDIC. So if you would have ever told me, right Lisa, back in the Concord field office in 1991 that I would be sitting around this table, I would have thought you were all crazy. So again it's interesting

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how everything comes full circle. So I hope my perspective is helpful in the way that I have been an examiner. I will say I've only been an examiner for four years, and I've been at Sugar River Bank for 26, so certainly one outweighs the other.

A couple of other things that I just wanted to share. Sugar River Bank is very much interested in making sure we are sustainable and viable as a mutual, and we have realized that an important way to do that is through partnering with fintech.

So another story. So back in 2015 in particular, Sugar River Bank was the first small community bank that partnered with Lending Club to provide national-based unsecured consumer loans. So interestingly at that time, in every single publication that was put out by any type of ABA, ICBA -- I can still see the headlines and I saved them -- Mark Pitkin is sleeping with the enemy. What are you doing partnering with these

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fintechs? So I am so happy to say that at this point in time, ABA in particular, has individuals that do nothing but figure out how banks can work with fintech. So I feel blessed that we were able to start that or maybe pave the way a little bit, and with regards to that, one suggestion that I may have to examiners is -- please don't come to the bank with any predetermined notions as to what makes sense and what doesn't make sense. So the first comments we got, because we started working with a company called BancAlliance, of which I sit on the Board, we were doing middle market C&I loans that were basically generated through BancAlliance. So we had to go through that process. But sometimes it appears -- and our examiners are wonderful. I mean they are some of the best in New Hampshire without question. But there was a slight predisposition that what is a community bank at that time of \$250 million working with fintechs and getting loans across the country? All I can

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say is those have been the two most successful products we have had at our bank for the last probably three to eight years and without those, it truly would have made us much less sustainable and viable. So when people come in and they say, "Mark, those are very risky assets," and I say, "I don't disagree, but there was much more risk to the bank if we did not have these relationships." So just a different perspective. I do know that one of the examiners, which is wonderful, spent two weeks in my office learning about Lending Club. But what I also heard from a number of other bankers that were starting to use that is that they had examiners that were spending two weeks in their office. So the other perspective is, if you find that there is something that is being used by multiple banks in multiple different regions, maybe one of the best things to do is to send a team similar to the syndication or SNC, and send a team to maybe go through at least that process once, and then

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maybe have at least some sort of idea as to what the situation is.

So to the actual strength of the bank, and those are my two observations that I thought were important, the actual strength of New Hampshire and the bank. So New Hampshire is still very strong. I hear some of the unemployment rates. We are fortunate our unemployment rate in the poorest county in New Hampshire is 2.4 percent. So we are incredibly strong. We are hard-working people. We support individuals of all types and always will, and that's the strength of New Hampshire, and everything else is going well. So again, I apologize. I didn't have a whole lot of specifics, but I thought maybe those observations were helpful.

MEMBER STUCHLIK: Thank you. Thank you for the opportunity to be here this morning. I'm Cathy Stuchlik, president of Clackamas County Bank, the oldest community bank in the state of

Oregon. We were established in 1911. We're an S-Corp with about 37 shareholders -- we have 37 shareholders. We are headquartered in the small town of Sandy, Oregon, which lies just east of the Portland/Vancouver area, and at the foothills of Mount Hood, which is near a popular year-round recreation area.

Our main office and three branches serve communities with a total population of about 135,000. I am fourth generation of the Proctor family to help guide the bank, and with my two sons, CFO and Chief Lending Officer, representing the fifth generation. We have about \$226 million in assets and run with about a 75 percent loan-to-deposit ratio.

We are predominantly a commercial bank, focusing on commercial real estate and construction. Our consumer lending is minimal. Our market right now is relatively stable, but it is showing signs of slowing. Our loan growth is moderate, but our deposit growth is keeping pace.

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Our loan quality is good with no delinquencies or problem loans.

We've had a number of years now that recoveries have outpaced losses, and by the end of this year, the bank will have recognized recoveries of 100 percent of our workout loans that were charged off in the last recession. In addition to a full suite of traditional banking services, we offer property and casualty insurance, health insurance, financial and wealth management.

In Oregon, banks are doing well, although there is concern about the overall business environment in Oregon given we have new taxes, new employer mandates and other state-level policies that are burdening all our businesses.

Oregon is among the states with the lowest number of bank headquarters, especially considering our population. Currently we have 16 community banks headquartered in Oregon, and

in comparison, we have 59 credit unions headquartered in Oregon. So communities risk losing that community bank option. We feel credit unions are out of control in many areas, and especially in Oregon and Washington. They're becoming commercial lenders by the acquisition of community banks, and with the recent changing in the appraisal threshold, it runs even further, that inequality between banks and credit unions, and should give us all cause for safety and soundness concerns.

In Oregon, nine out of ten of our largest financial institutions headquartered are credit unions. So in addition, we just recently had a gross receipt tax put into effect for next year from our Governor, and there again, credit unions are exempt from it. We would appreciate a dialogue for looking at the largest credit unions, which for all intent and purposes are a bank, and at a minimum holding them to the same standards as their same size peers in the banking

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world.

Another concern or challenge we have is protecting our systems from cyberattacks, but still being able to deliver innovative products and services through technology to remain competitive. We are also seeing competition offering lower rates and longer terms, and our mind set is the same as it was during the last downturn, and that's that we're going to give up profit today for long-term safety and stability.

As a community bank, we would appreciate continued discussion on small community banks being exempt from impounding taxes and insurance on residential real estate loans; increasing the threshold for HMDA reporting requirements; relief from complicated consumer real estate disclosure requirements, as it directly impacts the timeliness of servicing our customers. We are also hopeful of the agencies working together to jointly issue consistent CRA reform and help with the BSA/AML

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reform in Congress.

We'd like to see regulations thoroughly vetted before they are implemented. For instance, CECL had an original implementation date at our bank that we worked hard to comply with. That date now has been set out years. In the meantime, we purchased software and spent numerous hours in preparation for that original deadline.

The regulatory climate overseeing marijuana and hemp remains a concern for us and our ability to bank those customers, and low unemployment rates are causing challenges in our ability to hire a qualified workforce. We're looking forward to our upcoming safety and soundness exam in February.

We would like to commend the FDIC on the quality and professionalism of our Oregon examiners. We consider our examiners a valuable resource, and we rely on them for guidance throughout the year, not just at exam time.

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They've been fair and consistent, giving us feedback on areas that we need to improve on, and they commend us when we're doing things right. So with that, thank you.

MEMBER WILLIAMS: Good morning. I'm Len Williams. I am CEO of People's Intermountain Bank located about 30 miles south of Salt Lake City, Utah. We're a 106-year old community bank with just under \$2.5 billion in assets, and we have 27 branches that basically span the state.

What I'm going to talk about is a little bit of what's going on in the Utah economy, but it's hard to give a clear picture when we've got a branch in Salt Lake and we've also got one in Preston, Idaho, quite different economies, an ag-based economy versus a metropolitan area there.

Utah in general has a very diverse economy, continuing to grow in excess of the U.S. GDP, with unemployment under the U.S. GDP. We continue to have net in-migration with higher

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paying jobs. Although that sounds great and it's been working well for us, there are some concerns starting to creep up as far as affordability for folks from the rural areas and some of the in-state younger folks coming up through school. Housing affordability is becoming more and more of an issue.

Housing is in demand due primarily to the increase in high-paying jobs, and those homes are being purchased and filled by a lot of out-of-state in-migration, a lot from California, particularly the tech area, which Utah has put some focus on over the past several years.

As a matter of fact, we've seen a lot of speculative growth. We've got over two million feet in commercial spec buildings going up in our market right now. Interesting time for the bet to be going on from our perspective, but investors are putting a lot of money out there with a lot of faith in the long-term economy.

We've also recently completed our

safety and soundness exam, the first one we've had in the last 18 months and the experience was generally good. You know, I think we found examiners open to discussion. It was more collaborative than it has been in some times past, and I think we all walked out pretty satisfied with the results and the interaction and the plans going forward. So I commend the FDIC and the state of Utah for their work with us through that process.

One issue that we're seeing, that we're having a hard time finding guidance on, is in our vendor management program and understanding who we interact with, is coming up with a way to validate and understand cloud-based suppliers. As a matter of fact, that was one of the discussions we had during the exam, is we're using a couple of cloud-based, and we go through our standard underwriting and discussion and from the examiners, the feedback we got was, "You know, it's great that you're doing this. We know

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they're nationally known. We know they're used universally, but we need more input." And our question was, "Well, what do you use to understand them?" and the response we got was, "Well, that's a really good question. We don't know either." So I think universally, the examiners, the banks, as we look at some of these fintech options and opportunities to interact with, we've got to understand a better way to vet those that we're on the same page with. We continue to invest in technology, and determining who those -- I heard earlier -- who those fintech partners need to be. You know, we're in a state of Utah, where there are a lot of industrial banks. It's one of the top charterers in the country, and we've actually found that probably more helpful than threatening, just due to they're not necessarily acting in our market, but they're providing goods, services, and technology that are helpful. Our local bankers' association does a pretty nice job keeping all of us together,

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to kind of work out and talk about plans like we're doing here. We found some of those tech companies quite helpful.

We continue to invest in loan loss reserves to ensure a fortified balance sheet during these days of plenty. Not knowing how long this, you know, I don't want to play doomsday, but not knowing how long this will last. . .

I was encouraged a week ago. I saw some graphs showing the contraction and expansion of markets since the Civil War. The takeaway for me was that historically, I mean there have been some drop offs, and then a fairly sharp rise. This one is the slowest rise in history, but also the longest. So there's a long-term sustainability factor that was somewhat encouraging. So I'm not quite as doomsday, as maybe I was last time I gave this discussion.

Another fact that was interesting, and it pertains to our market and the U.S. in general,

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is there are more job openings than there are numbers of unemployed people. Which is a problem, frankly, in finding quality help to continue to grow economies.

I am concerned about margin compression. We've got rates going down and most banks are asset sensitive. We're quite asset sensitive and it's a bigger impact on us. So the timing and movement of those due to political pressure versus economic pressure, I'm not sure what the difference is. But I think a lot of banks will be hurt by that compression issue that we're looking at.

We are seeing competition, as had been mentioned earlier also, and I'm not so concerned about rates moving. We'll compete as we need to there, but I'm starting to see concessions on financial covenants and structure, which are much more concerning. Looser underwriting standards, which cause concern over the long run for the whole industry.

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With that, the economy's strong. We have a couple of agricultural segments that struggle a little bit more in this economy. But we're still pushing ahead, hopeful and as we like to say, hope for the best, be prepared for the worst and take whatever you get. Thanks.

MEMBER NARVAEZ: Good morning. I'm Gilbert Narvaez, Jr. I'm President and CEO of Falcon Bank, and I want to thank the FDIC for allowing us to be part of this committee and I'm certainly looking forward to continuing to contribute. A little background on our bank. We're a \$1.3 billion independent community bank. We're headquartered in Laredo, which is the number one port right now in the country for international trade, so international trade is very important to us.

Our network is we have 17 branch locations and we -- our markets span from the Lower Rio Grande Valley from Brownsville-McAllen up to Laredo, Eagle Pass in Del Rio, up the Rio

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Grande. So we're right on the water, and also we're up and down the inner I-35 corridor. We're up in the San Antonio Metroplex, and also in the Austin market as well. So we've been very fortunate to expand into those markets, and it's been very fruitful for the organization.

We do have also an insurance operating subsidiary within the bank, so we're able to compete with our other competitors there in our markets. In terms of economic conditions in our areas we operate, they do continue to be very robust but very competitive.

The unemployment rates in most of the markets we operate in are right at or below the national employment rate. So hiring people is a difficult task at this point, especially if we're growing.

We have been affected by principal paydowns on our loans. So the first six months of the year and actually last year, we actually did not grow in loans. We had a lot of loan

production, but there were a lot of principal paydowns. But we attribute that to the good economy. There's a lot of liquidity out in the market. Folks are purchasing or acquiring investments in properties and real estate and we are paying off our own or our own customers are actually paying down their loans.

But there's quite a bit of activity that continues in our markets, and in terms of non-performing assets, we're at record levels right now, where our past dues are almost non-existent and we hope that trend continues and it seems like it will. On the political front, as I mentioned, international trade is very important to us, and we're hoping that the new NAFTA, which is the new North American Free Trade Agreement, which now is the United States-Mexico-Canada agreement, we hope that there's a safe passage on that in this coming quarter, the next time Congress is going to be there. It is important to us. I think there's a lot of

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players out there, and I say "players," investors out there on the sidelines that are willing to make investments for going forward, but they want to make sure that the agreement is inked. So it's going to be important. There is a tremendous amount of warehousing needs in our markets, and especially along the border, and this is, you know, the passage of this agreement is going to be very important to all.

Also because of our proximity to the Mexico border, we are -- there are also some political features that have happened, and what we're seeing is with the new presidential administration in Mexico, that has spurred an influx of investors into the states, actually wealthy international folks that are actually considering or are actually starting to move into neighboring states like Texas and Arizona and I think as far as California as well.

So they're making investments, bringing their funds, bringing their businesses

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to us. So we have been the benefactor of some of that business and it's only, with the trade agreement, I think that will only solidify some of those additional investments that need to take place.

On the regulatory side, I'd like to commend the FDIC. We are actually undergoing an examination right now. We're in our final week of the examination and it's gone very, very seamless. It's been non-intrusive to our business and their approach, this time around and I have noticed the trend, that they are more structured and there's more, I guess, effort put into pre-planning, and there's a lot of collaboration and a lot of communication beforehand, and I think that's led to a very smooth examination at this point.

So as a matter of fact I'm here. This is our last week. So I need to -- I felt I needed to be at the bank. But I do have an exit next Tuesday. So but everything's going well, and I'd

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like to commend the FDIC for their efforts in the examination process. That's all I've got. Thank you.

MR. MILHORN: Sarah.

MEMBER GETZLAFF: Good morning. Thank you for inviting me to be here. It's really an honor to be invited to this committee and you guys also got me out of 12 to 18 inches of snow in North Dakota today so -- everybody was asking me yesterday when I was getting ready to leave if I was worried about getting home and I'm not.

(Laughter.)

MEMBER GETZLAFF: I'll be fine if I have to stay an extra day or two, you know. So I'm with Security First Bank of North Dakota in Bismarck, New Salem, Center Mandan, North Dakota. It's a \$185 million bank, third generation. North Dakota is an oil state and an agricultural state. We didn't really become an oil state until about ten years ago, and so we got out of

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the first recession. Things have slowed down considerably for us in the last few years with ag prices being down and oil prices being down.

At the same time, that oil brought in a lot of homebuilders and so we actually have kind of an excess supply of houses in our area. Our mortgage department in the last couple of years has not done that well. This year we're doing significantly better because of a little bit of a refi boom that we've experienced just in the last few months.

As a third-generation banker, I'm friends with several other third- and fourth-generation bankers in North Dakota, and collectively I would say the thing that keeps us up at night is the consolidation of the banking industry. People ask me all the time, "Well, what size do you think you need to get to survive?" Everybody thinks it's that \$500 million mark. A lot of things change at \$500 million. It's not that we don't want to grow,

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but you lose a lot of that small town feel, that small town appeal, when you get to be too big. But we're kind of at this level where we're too small to get out of some things like HMDA. We're unfortunately right around that \$100 million mark loan limit, so we won't get out of any of that. But we were lucky enough to get out of the expanded HMDA, although we had converted our systems and kind of got in line and got ready for that. It would have been really nice if that relief would have come a few months sooner.

We're also right now as of today at 87 wires for the year. We don't want to get to 100, so last week we implemented a minimum international wire amount, and the next day, we had four customers say, "We're leaving for Nicaragua next week; we're done farming. We want to close our accounts. We need to do wires under the limit." And of course, we do them because we're not going to tell them we can't, even though they're under that limit. So now we're at 87,

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and trying to figure out a way to not get to 100. If we were going to be at 200, it would be fine. The cost of compliance would be worth it. But when you're right at 100, it's really not. When we work with technology vendors, you know, whether it's Fiserv or Jack Henry or anywhere else, we also feel like we're kind of priced out of some of these new technologies, and that's where fintechs probably will be a good option for us. We haven't really gone down that path yet, but for us to offer things like person-to-person payments or some of the other new technology things, it's just really expensive and some of the things we've tried, we just don't get enough traction on and when we figure out how much we're paying per customer that's actually using the technology, it's not necessarily a good return on investment for us, but we usually do it anyway because we know that if we don't, they'll go somewhere else.

Kind of our biggest thing right now is

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mortgage compliance. So in my home town of 550 people, we're the only bank in town. We're the only bank in the county because we're the only town in the county, and we don't have a loan officer that will do mortgages anymore. It used to be that the loan officer there did consumer loans, real estate loans, commercial, agricultural, whatever came in the door. Well, when TRID passed, all of our loan officers said, "We don't want to do it anymore." So we actually took a mortgage underwriter from our mortgage department and made her our home loan specialist. Everything has to go through her, which is really good for compliance but it's really bad when she's out for 12 weeks because she had to have her ankle reconstructed.

And so then I actually became kind of the TRID specialist for those 12 weeks. We kind of pieced it together, but then people in our small towns have to rearrange their schedules to either drive 45 minutes or our loan officer has

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to drive 45 minutes in reverse, and some of those bigger competitors like Rocket Mortgage, they won't do those mortgages because they're hard and they're expensive. So we end up doing all the hard, expensive mortgages, and they kind of cherry-pick the easy ones in the bigger cities. What ends up happening is then, you know, -- I don't know if I can say this, but when a Wells Fargo screws up and the rest of us have to pay the price on the compliance side, then you drive banks like us out of the mortgage business, and then they just go back to the Wells Fargos or to the Rocket Mortgages or somewhere else because that's all that's left. So that's a big concern for us.

We also have an appraiser shortage, and thanks to Doreen, North Dakota applied for an appraisal waiver, and we were granted the first one since 1991. That was spearheaded by our banking commissioner in North Dakota, and the appraisers are really not happy with it. I don't

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think it will affect them a ton, because all the GSEs are still going to require us to get an appraisal at the \$250,000 limit, so for houses it's not really going to help, but on the commercial side it's helped, and we're using it wisely. We're having any appraisal waiver usage go through Loan Committee, because there are still going to be complex properties that we don't feel comfortable valuing. But it's nice to have that flexibility, and the waiver lasts a year, which is nice but, you know, until the Appraisal Standards Board steps up and changes the way that appraisers get certified, I think it's going to be an ongoing problem. The appraisers in our area are just kind of aging out and new ones aren't getting into it. It's really hard to make that career switch late in life when you have to be an apprentice for two years and basically work for peanuts if you can find someone to take you on. To come right out of college, I feel like it's not a big enough

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industry where people are even really aware of that as a career option. It would be nice to get some sort of training, you know. If you can go to college to be anything else, why not be able to go to college to become an appraiser, I guess.

I think that's it for me again. Thank you for inviting me to be here.

MEMBER DONNELLY: Good morning. I'm Chris Donnelly with Bank of the Prairie in Olathe, Kansas. We're a \$140 million bank and Olathe is a southwest suburb of Kansas City, Missouri. I'm going to hit a couple of topics about the metroplex or metro area of Kansas, and I really want to focus more on the rural section of Kansas.

Pretty much in Kansas City, it's the same as everybody else. We have a labor shortage. Unemployment in Olathe is under 2.7 percent. The housing affordability is difficult. It's hard to find anything that's affordable. The margin compression is

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difficult. We're now seeing loans being offered in the high 3's fixed for ten years, and we don't play in that market.

We're also seeing a loosening of standards in the credit underwriting. So we're obviously pulling back on that. The economy is still strong and things are going well in Olathe and the Kansas City Metropolitan and really metropolitan Kansas, which is not much. We're seeing a weakness in the Wichita area, which is aircraft. The Boeing issue is creating significant issues for Wichita, which has Spirit AeroSystems, which builds the frames for the 737, unfortunately.

One thing I would like to address is yesterday I had the chance to sit with 31 CEOs from Kansas banks. They were there for a general conversation, but they're also preparing for a meeting with Chairman Powell and President of the Kansas City Fed, Esther George, and Jerry Moran. One of the things that came up was a line, a

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distinct line, that you can see in Kansas between metro and agricultural Kansas. If you draw a line down Highway 81, which about separates the state in half, the western part of the state is suffering, and it appears and for the first time and some of you young bankers won't understand these terms, but back in the 80's when I was in banking in Oklahoma and they were closing two banks a week, and Dick probably remembers those days, they came out with a couple of plans. Yesterday was the first time I heard it in probably 30 years of trying to get in front of the bank closures that might happen, might happen, from the difficulty in agriculture with programs that came around, capital forbearance and amortization of ag loans, ag charge-off loans.

I don't know if anybody in here remembers that. I remember it clearly and was one of the first banks that took advantage of those. And so the preemptiveness is what the discussion was.

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Instead of letting lots of banks fail, can we get in front of it now? That was the discussion with Chairman Powell yesterday, because the -- as I look down my notes from these 31 bankers -- the difference between eastern Kansas and western Kansas is significant, and the deterioration in the ag banks has probably started to increase, and I think the FDIC clearly knows that. So what I was tasked to bring -- the message was -- can we get in front of this before it starts back to the old days of closing two banks a week? There's not two banks a week to close left; there's not that many.

So it's quite interesting to hear those old things back in the 80's, and then if you recall the recession of 2009 and '10 and how fast they were closing. Trying to avoid or get in front of that before it happens. So overall in Kansas, the bulk grain type things, we are hearing people for the first time considering not planting wheat because of the margin -- the

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profitability of it.

Also going back, corn prices and bean prices are difficult, and we're starting to see an increase in Chapter 12 bankruptcies, which is difficult. So anyways, my story today is what can we do to get in front of it before it gets too bad? In the 2019 Risk Review -- excellent, excellent product -- the section on agriculture clearly spells out where the issues are and it's right there in the center of the United States, which is also rural. The most rural parts of the country, where we might have one or two banks in five or six different counties, and they're the only one there to serve those rural settings. So hopefully we can find solutions to keep those banks viable and keep them in business to support rural America.

So I'll get off my soapbox for now, but looking forward to talking more about it later.

MEMBER KIMBELL: All right. I'm one

of those rural bankers. Bruce Kimbell, First Community Bank, Clinton, Kentucky. We have locations in the southern, southwestern-most Kentucky and also northwestern Tennessee, right on the Mississippi River. Highly agricultural, highly rural, a small population basis.

We're about \$245 million and about seven locations throughout those two states. To speak to what Chris just spoke of, beginning to see some deterioration in ag, although last week we had a farm sale not 20 miles from one of our locations, and it brought a record price from a farmer, nothing more. Not an outside investor.

So there are -- we still have a wide disparity between the upper end of agriculture. This particular piece of ground brought \$7,900 an acre. Probably the high was \$6,500, \$6,750, you know, over the last ten years. So this gentleman probably paid mostly cash. It was a \$2 million purchase, and probably paid at least half of it down in cash. And so we're -- you know, we're

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still there. We're still there.

I started lending to ag in 1983 right at the beginning of the downfall. We know how to use guarantees. We know how to put those things in place that limit our risk. We've used those things extensively. We do a lot of poultry. We have two integrators in our part of the world. We have a pork integrator in our immediate market.

So we use guarantees a lot and have had a lot of success with USDA and FSA in dealing with that. Also SBA, when they have allowed us to cross over and to utilize those products when we do run into the funding limits, and so those things are always important to us. Yes, from an examination standpoint past dues may get a little high occasionally, but fortunately for us, that's never really led to charge offs, so there's a difference there, you know. And so I think that's one of the things we always have to keep in mind, those past dues may spike because if you

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have a \$2 million poultry loan come on your past due list for a couple of weeks while the family is waiting on their check to arrive, you know, and you've got a 90 percent guarantee on that, the risk of loss is very limited, and we've been doing guarantees for 30 years. So we feel good about that and our ability to maintain those guarantees. And so that's something that's really important to us. Kind of like Sarah said too, we're it, you know. In a lot of our markets we're the only bank. We do a little bit of everything from residential to commercial, ag, consumer. We try to do it all.

We've had a lot of success here lately. Our residential markets have been propped up here lately, especially in Kentucky, from our friends in Illinois. Because of a lot of things going on with taxation issues and all that, we've had a lot of retirees from Illinois moving to our part of the world. I'm in a county of 5,000 people, you know, and folks just don't

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show up for no reason. But folks are showing up. Folks are showing up for a reason, and they're looking for a slower lifestyle, no traffic, fairly inexpensive home prices and just a relaxed way of living. We've had good success with it, and as we have conversed with these individuals, that's what they tell us, you know. They're just looking for a change in lifestyle. For those of you that live in D.C., come to Kentucky.

(Laughter.)

MEMBER KIMBELL: So although my friends in Tennessee, they have no state taxes. So they have a little bit more advantage on us than Kentucky. But I did too reach out to our state banking execs in Kentucky and Tennessee. One of the issues they brought up again, like Sarah, was in Kentucky we're beginning to see, especially in the eastern part of the state, some shortages of appraisers and beginning to -- and even then, some of the times of trying to get some appraisals in. Not so much in my immediate

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area, but at least in the eastern part I'm beginning to see some problems there. They're wondering about maybe there needs to be a re-look at some of the requirements. Maybe the appraisers have stacked things too much to their advantage and how to get into that marketplace to doing these, to having apprenticeships and all this for some period of time. The market, the market will take care of that. I think we as bankers and lenders, we know a good appraiser from a bad appraiser and we will figure that out. So that's where we want to look.

Tennessee is still having some questions, especially the Nashville marketplace as far as brokered deposits. A lot of their banks are asking about that. They feel like the fintechs are taking a lot of the deposits out of the marketplace and so they're having to look to brokered deposits to be a more -- to be a stable source of deposits -- and so they were really concerned with that. Kentucky too, we're one of

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the -- I heard hemp mentioned a couple of times. We too, we're right there at the forefront with, you know, production. And it's a dynamic marketplace right now, lots of questions, lots of -- lots of entities trying -- lots of money chasing CBD production. And so it's been interesting. We don't have -- we have a couple of folks that are doing it. But as we have listened and as we have learned, it's still about making wise credit decisions and how do we -- how do we deal with these particular producers, and coming across with the funds that they need. Again out of Tennessee too, we've heard credit unions mentioned. Actually have had a couple of acquisitions in Kentucky by credit unions of local banks, and a credit union out of Tennessee recently purchased a bank up in Central Kentucky. So I'm not really sure how that's all going to play out in the future. I wonder how well a credit union would do in my environment, in my world, with ag and the small businesses that we

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deal with. Probably not the best fit there, and so we really want to be mindful of that and I think the FDIC definitely has a role in that, in helping those banks just like we've talked about, rural banks, in trying to make sure that we can keep institutions out there to help these communities.

There's a big need for capital in those rural areas, and lots of good ideas can come from there. But when you're not from there and when you don't understand the dynamics of that community, whether it's downtown Detroit or a small town Clinton, Kentucky, you know, we have to live there, we have to be there, we have to understand the dynamics of those communities.

So good to be here with you, and look forward to hearing everybody else's comments.

MEMBER LEAVITT: I'm Tom Leavitt of Northfield Savings Bank in the heart of the Green Mountains of Vermont, and I want to welcome the new members to the table. It's great to have a

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twin state of New Hampshire in the house. Welcome Mark, and to our visiting friends, the Regional Directors as well, great to have you listening to us. It's an honor, thank you.

Our bank has \$ 1 billion, fifty million in assets after 152 years of trying real hard in our communities, and we have done all of that organically. Never acquired, never been acquired. Hope to continue on that path.

We're three years, almost three years into a four-year strategic plan. We've been growing at better than state peer and regional peer rates on average, and feeling good about the impact of the tactical initiatives and themes that we've established.

Going into Year 4, we saved that for the heaviest lift of all. We're going to do a conversion to a new core within the same vendor family, to get us to a scale that could see us elevate organically, hopefully to the \$2 billion mark. So we feel we're at an important

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inflection point in terms of technological backbones. We're going to take that on in Year 4 of our strategic plan.

We've got that all queued up. We've got a great team working on it. We had a big and spirited all staff meeting last week to kick it off. So everybody's focused on the big job ahead.

We're moving gradually to a more commercial focus as part of our strategic efforts. Even though many mutuals, we are a mutual, have grown up in bread and butter consumer activities, taking deposits, turning those deposits back around into performing loans and residential real estate, we've migrated certainly much more assertively over this century into the commercial space, and we're really picking up steam as we go up against what we call the legacy banks that were formerly headquartered in Vermont, that have ceded their independence to larger, regional players.

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So we're picking up some market share as a result of that, but also making sure we have the programs and the services and the solutions that meet that same grade of value. We can't just do it based on local alone.

Our economy is characterized by very low unemployment, among the lowest in the country, but with that comes the unfortunate low workforce formation that we're dealing with in the state due to demographics. Along with the state of Maine, we're two of the slower-growing states in New England in terms of population. The shift is a result of an aging population cohort, a struggling net in-migration, lower birth rates and a reduction in some of the popular and successful immigration programs that we've benefitted from over time. The City of Burlington, where I'm from, was a large refugee resettlement center, had great programming. We've had 36 native languages being spoken in Burlington's high school. But there are signs

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that that pipeline and that energy is slowing. We're concerned about that. When you look at cities like Barre and Rutland and Winooski in the state of Vermont, these are all municipalities that were built on immigration. They all came about because of hard-working folks that came from away or elsewhere that landed in our state, and got to work and built their lives and their families through many generations.

And we've got new generations of new Americans that are trying to do the same thing, and we would like many more of them. If you think about climate change, it's just one global factor right now. The possibility just before the first half of this century concludes that we might have upwards of one billion climate refugees trying to find higher ground or better places where resources are more consistent, and where the quality of life is sustainable.

When you've got great bones like we have in northern New England with these town

centers, intellectual capital, cultural amenities, beautiful landscape and people that are open and willing to welcome, then you have the makings to resettle some of those dislocated populations. And I think at the federal level we need to be thinking deeply about that, because that issue is going to be with us long after the next economic cycle starts and ends.

And so that's something that as I age personally, I'm going to be talking about a lot and have been every time I've had an opportunity with a group of impressive decision-makers like the ones we're with today.

So conditions today are okay. We're battling net interest margin compression like everyone else. We're going to do our best to assure there's a floor to that, even in a declining rate environment. We are really confident about the near-term future in our institution, in our state. But we don't quite know what tomorrow's going to bring or what the

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tomorrows after that will, and we want to get to work making it better for the next generations to come.

The meeting materials for today's package are very encouraging because they signal the progress that has been made. Just in the few short months that I've been coming to these meetings since March, I'm really gratified by the supervisory team and the other sections of the department that are reaching out, listening and crafting modernization and new tools to help us meet our regulatory responsibilities and burdens, and I look forward to the topics the rest of the afternoon.

MEMBER EDWARDS: Good morning. I'm Jim Edwards. I'm CEO of United Bank. We're a 110- year old community bank just under a billion and a half dollars in size. (Is this on? I've got a red light blinking here. Is this better? Good, better, thanks.)

So we're located about an hour south

of Atlanta, and we operate in 11 contiguous counties on sort of the southeastern and western sides of the Atlanta market, all the way down to just north of Macon and outside of Columbus. So sort of in that triangle area of the state there.

We have a large mortgage operation as well, also do trust and wealth management. We're an S-Corporation and Sarah, like you, I'm a third-generation banker, and Cathy, that's very impressive. You guys are into your fifth generation. That's -- we think we're doing something with third generation, but if you have five generations, that's really amazing, so congratulations on that.

It did occur to me as we were coming around the table here that I'm going to be asked to opine on the state of the Georgia economy and how banking is doing, and then I look up to see our Regional Director here.

(Laughter.)

MEMBER EDWARDS: Boy, I sure hope

our views align at least a little bit here. But anyway, having said that, the state of the Georgia economy from my perspective is very good, and United Bank's having a very, very strong year.

But being a 25-year banker, that starts to make me get nervous, and I get a little nervous hearing some of these comments. From the time I've been on the committee here, it seems like maybe there's a little more concern out there than there has been in some of our earlier meetings that I participated in. So that's concerning.

But having said that, the bank's having solid growth this year. In fact, loans are going to grow eight or nine percent year over year, and we've also had, continue to have solid deposit growth. We've been very blessed with that in our market, and have -- it's not grown quite as fast as loan demand is.

But I think what's happened is our

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more rural markets in our footprint have finally come back, and it's taken a long time after the Great Recession in Georgia for some of those more rural markets to begin firing on all cylinders again, and that has happened and we're delighted to see that. We've got low unemployment as I've heard many of you say around the table here.

Interestingly, we're opening a new branch in one of our markets. We bought it from a regional bank that in their mind was kind of rationalizing their branch footprint. It was an opportunity for us. I don't know about all of you, but when we open a facility all my career, two things have kind of been the holdup. One has been getting all the regulatory approvals. But even worse than that was getting the telecommunications stuff set up. It's just a long lead time from that. Well, I found out yesterday that we may not be able to open this new branch on time because the cabinet makers are so backed up that they can't get the cabinets in

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on our projected start date. So that's how tight construction labor is in our part of the world right now. Very, very strong housing demand. Only about a 90-day supply in many of our markets.

But having said all the positive things, I do have some concerns as well. We have begun to see a slight uptick in delinquencies and problem assets, and it's too early for me to really be able to tell you that this is a trend change. Those areas have been so low for the last several years in our market and our Bank that maybe we're just moving back to a more, a little more normalized type area there. So that is something we're paying attention to.

Another issue is that the inventory -- in the housing market, the inventory of old, recessionary lots that were put on the ground before the recession -- that inventory of lot supply for new home construction -- is almost gone, and the cost to put a new lot on the ground is much higher than these older lots were.

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So that -- I think that's pricing some of our first-time home buyers out of the market, really. That's where we're seeing the most demand, but we're also seeing the hardest time getting people qualified in that market there.

Another area of concern, we've talked about the declining rates. As we begin to do our budgeting for next year, you know, these are going to be big headwinds. That was a tailwind for us for the last several years, and it's going to be something we're going to have to deal with there. I think that's obviously affecting all of us around the table here.

I am concerned about the banking sector just taking on more interest rate risk. There's a lot of pressure to do that, to find assets now. But I think we're taking on more interest rate risk that that's concerning to us. So trying to manage that and be sure we're on top of that and just be prudent and be conservative is something we're spending a lot of time

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focusing on. But it is challenging. You heard some of the rates thrown out around the table here from some of this long-term fixed stuff, and that's a challenge.

I would echo comments I think Louise made about the opportunity, maybe others as well, about obtaining CRA credit for Opportunity Zones. We have those in several of our markets. That's a big deal. That seems like a really helpful program, and we are very interested as a bank in participating in that. We'd like to see CRA credit for that.

Also, we'd ask that you pass along to the Chairman how much -- and I'm sorry she couldn't be with us today, but I certainly understand -- how much as a banker I appreciate her focus on trying to bring fintech and the cores together to work better.

This is really the challenge. You heard Keith say, talk about, how the pressure from outside non-bank and fintech companies is

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pressuring us in the mortgage area and some of these areas. We've got to be able to figure out a way to integrate fintech, appropriate fintech technologies with our cores. So I appreciate her recognizing the need for that and her support of that.

The last thing I would just close on is something nobody else has hit on and I'm certainly not an expert on this, but it's the proposal or the request or the application rather to the FDIC from Rakuten for this ILC charter. This is a Japanese fintech as I understand it, and I just would ask the FDIC to please be cautious and careful when they are looking at charters from these non-banks. Make sure we have a level playing field. I think our markets are challenging, and we certainly don't want to impede commerce. But I think just speaking for myself personally, all I would ask for is that there be a level playing field. If folks are going to have the ability to use FDIC insurance,

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they need to have the same requirements that we as community banks have on us.

Thank you for the time to make these comments.

MEMBER MALEY: Good morning. I'm Lori Maley from Bank of Bird-in-Hand. I'm the president and CEO. For those of you that may know, Bank of Bird-of-Hand was the first bank chartered in the United States after the Great Recession. From our humble beginnings in a small town, in Lancaster, Pennsylvania, we are happy to report we started at \$17 million in capital. We have now reached a level of \$450 million in assets, just under \$450 million. So we're kind of the babies or the toddlers around the table, with all these well-established banks.

In our market, we have very low unemployment and it kind of resonates the same message around the table. Skilled employees are hard to find. We see that same issue. We do a lot of agricultural lending. 2019 was a very

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good year for ag in Lancaster County, a wonderful harvest of corn and other items that they harvest such as tobacco. Dairy is suffering, though. We're seeing a lot of the dairy farmers go away. So that part is sad, because a lot of it is families that have been in that, generation to generation passing the farms down. So we're seeing some farms being sold.

We actually now have three brick and mortar locations. We opened our latest branch in June of this past year. So we serve a large Amish population and plain community, which for those of you that may know, their travel options are restricted due to the means of traveling by horse and buggy. So they have a limited circumference, you know, five to ten miles. So we really try to cater, not only to the community, but especially to that part of the community. We do courier service for them. We do bank by mail, things that you may not necessarily see at other banks. We process 500 pieces of mail a month

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from the Amish. So, you know, mailing in checks and again, it makes sense, because for them travel is an issue. We also -- a couple of years ago we launched what we call a mobile bank, the Gelt Bus, which means money bus, which really is a bank on wheels. We've had a lot of success with that. In just a little bit over a year, the deposits have grown to \$12 million. We service nine locations a week. So we're actually looking to see where we would put another one of those units. We try to do some research to figure out which areas are really underbanked or are really non-banked.

So we deal with a lot of remote communities. That's really what we serve. Banking is very competitive in Lancaster County right now, be it on deposits as well as the loan side. We've seen really crazy pricing on loan deals, as low as -- I know we talked a little bit before -- as low as 3.26 percent for a 15-year mortgage amortization. Some deals we see banks

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are starting really offering loans about 1.25 percent under prime. So the competition is very strong in our area, and again I think not from our perspective, we have really good loan quality. We've had no charge offs in almost, we'll be six years old in December of this year. So we've had really strong loan quality and, you know, we don't really compromise the underwriting standards, but we've seen other banks do loans that our bank wouldn't do at incredibly crazy prices.

The deposit side, we also have fierce competition on the deposit side, and again the mention of credit unions. We see a lot of credit unions moving into our area as well as other banks. But you know, credit unions are putting up really Taj Mahal branches and offering crazy CD rates. Some I saw, you know, actually over three percent.

So I think the message is clear from all of us in the banking industry, that margins

will be squeezed. I think we're trying to adjust the deposit rates, but the falling loan rates also hurt us a little bit in that instance. So in some instances, it's cheaper, honestly, to obtain brokered deposits. But that's not what a community bank is built upon, and I truly believe our mission is to take those deposits in and loan it back out to people in the community.

Last week, I attended the 7th Annual Community Bank Research Conference at the Federal Reserve Bank in St. Louis. It was actually attended by regulators, educators and bankers and it was very interesting. I think some of the conclusions that I had drawn from that is that bankers are and do remain optimistic about the economic conditions overall, even though interest rate pricing is a problem, and it's going to squeeze banks a little bit.

As someone mentioned, Chairman McWilliams was in attendance and discussed that community banks must adopt changes with

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technology and embrace them. I think we all know that that is really something that we all need to look at. Technology and cybersecurity, they tend to be the things that keep us up at night. You know, they're getting smarter, they're getting more clever. You know, our first line of defense is the employees. We do a lot of training and I think now it almost gets to the point I tell people if you don't hear back from me, I don't click files, I don't click links, you're going to have to call me. So I think that's where we're at. We're kind of reverting back to the phone, and I think the theme of that conference overall -- what I took away is -- community banking is still alive and well in this country, and that's a very positive thing. I think we're getting back to realizing that community banks do have value and do provide a service, and I think we can all co-exist with the large, medium and small banks. I think there's a value for everyone in the market.

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So I thank you for the opportunity. It is wonderful to sit around this table with such esteemed colleagues and hear similar stories; it does bode well for the banking industry.

MEMBER SHETTLESWORTH: Thank you. Saving the best for last, I suppose.

(Laughter.)

MEMBER SHETTLESWORTH: Alan Shettlesworth, Main Bank in Albuquerque, New Mexico. I'm the president and COO. I'm working on the CEO title, but my dad has that title right now, so it's going to be probably a little longer until I get that title. We're a small, mostly real estate and small business related bank. We started the year with a little over a \$114 million total assets. As of September, we had a really nice big loan fund and also safety deposits, so now we're at \$166 million total loans -- oh, I'm sorry, total assets.

We're having a lot of success. This

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third quarter was the best quarter our bank has ever had in profitability. So it's a very exciting time for us, and I'm hoping the next week, because we'll be removing the punch bowl because it's kind of fun right now. It's very competitive, though. Some of the rates, we have participated in some of these crazy low rates, not necessarily the 15-year fixed, but our market is really wild. So it's an exciting time.

In New Mexico, the banks that are located along I-25 which goes north to south to Santa Fe-Albuquerque, Las Cruces, the banks headquartered in those areas along I-25 are doing really well right now. Most of the banks in New Mexico are not located along that corridor, along that interstate. They're doing okay. They just are not experiencing the same growth.

So the banks that are doing really well are along I-25 from Santa Fe to Las Cruces in the southeastern part of the state there's a lot of oil and gas activity going on there, so

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banks are doing really well. Although it hasn't left my mind that in the last recession the banks that failed in New Mexico were located along the I-25 corridor.

So I don't think we're seeing any signs of any major weaknesses right now. Stuff is just really clean. That's just a lot of fun. We are literally wrapping up today our FDIC safety and soundness examination, so I have my phone here, so if you hear me scream later --

(Laughter.)

MEMBER SHETTLESWORTH: But our EIC came into the bank a week ago and stated multiple times throughout the examination that he is not interested in presenting any surprises for us and the exam is going very well. It's a very rigorous exam and your people, your examiners are really sharp. That's both a compliment and also, maybe I wish they weren't as sharp in some cases.

(Laughter.)

MEMBER SHETTLESWORTH: We're doing

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great from that standpoint. On the IT front, we had one of the most interesting helpful things come from the team in a while. We're a small bank. We have 15 people. So we have to wear 15 different hats all the time. And so that's saying with everybody in this room, we don't necessarily in a disaster recovery realm, we don't probably do exactly what we should or what the large banks do in all these cases and performing these tests and documenting everything the way we should, in a thorough analysis, or we don't do it as thoroughly as we probably should.

But the examiner suggested, he goes, "You have these instances where people are out of the bank because someone's sick, someone's kid is out or whatever, and you have three or four or five people out of the bank" and for us that is a very impactful situation. He goes, "Just document that situation. That will prove that you guys are addressing some of the disaster recovery stuff." And so that was a very simple

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solution, a very simple recommendation, and one that I just thought was incredibly helpful because we rely on the examiners in there to help make sure we're doing things the right way, but we also rely on them as a resource.

The FDIC examiners are probably some of the best consultants out there, even though we don't tell them they're consultants. We do try to get all the information out of them we can while they're there. So, anyhow, things are just really good and since I'm the last one until break I will stop.

MR. DAVIS: Great. So it is 10:30 now. Why don't we take ten minutes for a break and reconvene here at 10:40, and then we'll continue with our panelists.

(Whereupon, the above-entitled matter went off the record at 10:30 a.m. and resumed at 10:43 a.m.)

MR. DAVIS: Okay. Continuing our discussion on local banking conditions, in the

interest of time I'll go ahead and just turn it over to our panelists. Thank you.

MS. OLESIUK: Thank you, Chad. And good morning, everyone. It's great to be here, and I think we're all very encouraged that our list of risks coincides very well with the list of risks that you all summarized. So I think we'll be able to stay on time and quickly summarize what's our views both in the report and out in the regions from a supervisory perspective.

So the risk review that we published in 2019, this was sort of getting back into publishing externally, which is one of our current goals. Prior to the last crisis, we were doing a lot of publication externally about risks out in the economy and in the banking sector. We stopped that for a while and have gotten back into it with this overview presentation.

So we broke down the risk review into three sections. It starts with an executive summary.

Then Section 2 summarizes economic trends, financial market trends, and banking industry trends. And then Section 3 is the bulk of the report, and that's where we highlight some of the key banking risks.

So the risks that are highlighted in the report are broken into two broad categories. First, credit risk and then market risk. And we really tried to highlight in our report risks that were relevant to community banks, given that we have a focus on community banks. And so those are some that we're talking about here today, but that was also a focus in the report, to make sure that we were highlighting how each risk affected community banks and how community banks were integrated into the risk.

So I'll briefly touch on these five risks and we'll talk about them both from the report as well as supervisorily. First off, starting with agriculture, so many of the credit risk sections of the report have maps like this

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which highlight where the banks that focus on the risk area are located.

So this first map is agriculture lending. Probably no surprise in what we heard earlier today, that the majority of banks that lend to agriculture are located in the Midwest. There's about 1,300 banks with concentrations in agriculture risk. Those are defined here as banks with over 300 percent of total capital in agriculture.

And this really is one of the risk areas that is most centered with community banks. Community banks hold the majority of agriculture loans outstanding, almost 70 percent, \$127 billion of the \$184 billion outstanding. So this is definitely a risk that is of certain concern to us.

MEMBER EPSTEIN: May I ask a question?

MS. OLESIUK: Sure.

MEMBER EPSTEIN: I'm sorry. Are these adjusted for any USDA or other guarantees

that might be in place --

MS. OLESIUK: So --

MEMBER EPSTEIN: Are these the net exposure?

MS. OLESIUK: So this is the bank-level exposure -- bank loans, both ag production as well as ag real estate loans held at our banks.

MEMBER EPSTEIN: Thank you.

MS. OLESIUK: And so just one chart from the report, there's several throughout the report. But one that I think illustrates some of the risk that was already talked about is this chart, Chart 8 on Net Farm Income. So as you can see, Net Farm Income has been on a steady decline, no surprise probably to anyone in this room.

We're six years in to declining net incomes from the high in 2013. But on the other hand, the strong farmland values, which were also talked about, have helped to keep agriculture past dues and delinquencies relatively low. So this is certainly something we're watching, but

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right now we're not -- our concern's increasing, but we also recognize that banks are -- seem to be managing the risk quite well. So I'll turn it to Kristie.

MS. ELMQUIST: Sure, thanks. So if you look back at that other map with all the dots, you may not think that the Dallas Regional Director would talk much about agriculture. But we do. Our Dallas region and our eight states, we do lead national production in cattle, cotton and rice, and make significant contributions to row crops and livestock in other ways too. So we have about 200 banks on that, on that map that are headquartered within the region, that do have a fairly sizeable engagement in agricultural lending. So I wanted to just share a few observations about what we're seeing from an exam perspective. All in all, those banks are doing very well. They continue to have solid earnings and steady but slower loan growth.

We are seeing delinquencies rise in

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some of these institutions. We are seeing more of the farm borrowers being leveraged compared to what they were in the past, and we are seeing more use in our institutions of government-guarantee programs. So all in all, things are looking pretty well.

We are seeing more carryover debt in our institutions as we examine them. The debt is well collateralized, and we are seeing them be structured appropriately with regard to amortizing out that carryover debt. So that is very positive.

We are anticipating additional carryover debt, particularly along the Mississippi Delta. We had a lot of banks in that area that were not able to even plant this year because of the significant flooding, so we anticipate that there will be additional carryover debt added to the balance sheets.

We're encouraging our banks, particularly in those flooded areas, to work with

their borrowers in a reasonable way, to the extent they can. From an examination recommendations perspective, honestly we're seeing really good credit administration, really good underwriting with regard to our agricultural lending.

So our exam findings are not necessarily systemic by any means, but here are a few things that we are asking banks to do if they have not already done so. Track and monitor carryover debt on a portfolio-wide basis, so they can understand what their exposure might be in that regard, and track and report any policy exceptions that exist. And then in a very, very few situations, we're asking banks to do a little bit better job of documenting crop inspections.

So those are sort of our three observations from an agricultural perspective. Again, nothing systemically challenging and most of our banks are doing really well, despite some of the challenges that they have with regard to

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their farm borrowers.

MS. OLESIUK: So moving on to the next credit risk area, which is commercial real estate, this is something that is also an area of concern that we're watching, and certainly an area of exposure for many banks across the country. This map showing the exposure levels - - the patterns have been different than agriculture, not surprisingly. Although there's about the same number of dots on this map as there was on the agriculture map, there's about 1,400 banks on this map. Those are banks with at least 300 percent of total capital in commercial real estate loans. They're primarily in metropolitan areas in the west, northeast and south.

Also, while there is certainly community bank exposure here, there's relatively less than in the agriculture section. Here, about 30 percent of total outstanding loans are held by community banks, and the rest of the exposure held by non-community banks. And as far

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as the chart to illustrate the trends we're seeing, there are some charts and information in the report about market conditions.

I think in general, and as I heard around the table, market conditions as far as vacancy rates and property prices seem quite strong. We see low vacancy rates and relatively high property prices, although some of the comments about prices being sort of propped up by concessions certainly resonate. We are seeing pockets of that as well.

But, in general, the chart that I wanted to highlight up here is showing the volume of commercial real estate lending in aggregate, and as you can see in the first quarter of 2019, we're at record levels of aggregate exposure to commercial real estate. I was out in San Francisco prior to the last downturn, and we were telling a similar story back prior to that downturn, and we've seen reaching, seen the levels reaching new highs now.

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I think one of the distinctions here is the growth that we're seeing in the multi-family segment, that gray segment of the bar. We did a little digging into this story, and it's really a combination both of the big multi-family lenders growing their portfolio, but also other lenders who hadn't really been active in this multi-family space getting into multi-family lending as well. And I think it somewhat reflects some of the comments that you talked about related to high housing prices and just shifting preferences into more multi-family space. So with that, I'll turn it to Mike for any comments.

MR. DEAN: Thanks, Shayna. Coming from Atlanta where CRE concentrations, if you think about the last crisis where Atlanta was the epicenter, we were used to significant concentrations of CRE. But CRE is a key lending factor for community banks, and lenders as well as borrowers remain very cautious about the

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volumes of speculative lending.

Banks aren't lending more on spec. They're limiting and they're basically focusing on their better borrowers, if you will. If you think about the crisis and where we were, and I know Jim can appreciate this. In Georgia, if you had a truck and you had a hammer, you were a builder.

(Laughter.)

MR. DEAN: You were given a number of money to loan on speculation. Although concentrations are building for Atlanta, these levels of CRE concentrations remain well below pre-crisis levels. And also a significant portion of it for our concentrations are in the owner-occupied CRE. ADC lending has declined by almost 40 percent since 2010 in the Atlanta region. So Atlanta CRE concentrations are heaviest in metro Atlanta; Florida; Charlotte and Raleigh, North Carolina; as well as coastal Carolina.

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But what we're seeing is banks are doing a better job of managing their CRE concentrations, and so it's just kudos to them for the work that they're doing with regard to CRE.

MS. OLESIUK: The next topic, this is probably the topic that's least relevant to community banks, but I think so important to talk about at least quickly. So we're looking at the growth in leverage lending and the growth in corporate debt, just as an exposure primarily for some of the large banks, but also just throughout the economy.

As you can see in this chart, the debt-to-GDP ratio is also at record highs, and that green segment of the bar of the chart, corporate bonds, this is where much of the growth is coming from. I think this is reflective of the very low rates, and so corporations taking advantage of these low rates and increasing their debt levels.

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The risk here to banks is those banks that are lending directly or indirectly to this area. But again, this is just something that I wanted to highlight, but not really as relevant to community banks.

In the interest of time, we will move on to the next topic. Interest rate risk and deposit competition. Again, this is something that we heard from many of you, I think. So I think we're happy that our thoughts are aligned in terms of the risk that we're seeing out there.

The chart here, the two lines representing community banks and non-community banks, these lines represent the ratio of non-interest bearing deposits to assets. And so as you can see, in 2018 and 2019 that ratio of non-interest bearing deposits to assets is trending down, and as many of you mentioned, demand for interest-bearing deposits trending up. And so this obviously has implications for net interest margins. I'll pass it to Mike for some

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additional comment.

MR. DEAN: Okay. Yes, sure absolutely. As you can see this phenomenon is very pronounced in the Atlanta region as well, and what you may have noticed when we were in an artificially low rate environment, people basically had their money parked in non-interest bearing accounts, and with the Fed teasing us a little bit and giving a couple of incremental increases in interest rates, depositors have now started shifting their money to more interest-bearing deposits. And I think that is -- I don't know what's going to happen now, because now there have been some reductions in the interest rates by the Fed. So for right now, I think it's people are sort of ambivalent, and they're trying - they'll likely take a wait-and-see approach. But for the most part, I think that the shift is very pronounced, and I think it's very consistent with what I've seen in this region as well.

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MS. ELMQUIST: I'll just maybe add a little bit of comment on interest rate risk management as well. So we did, we did see some interesting moves, both upward and then downward recently, and I would encourage you to look at that as an opportunity to back test your interest rate risk modeling, so you have an opportunity to see, you know, did that rate increase lead to X earnings or X impact on capital, and conversely, did this rate decline? Are we modeling it effectively? So it's a really pretty easy way to quickly look to see if your models are working.

I would also just encourage you to look at your stress testing assumptions, versus the reality of your pricing decisions. So I think that's one of the common examination themes is, you know, we see stress testing based on more parallel shifts in expectations that you're going to price at prime plus something or prime minus something. But the reality is we're seeing your pricing decisions being far more frequently one-

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off situations. And if it was just a one off, I wouldn't ask you to adjust your model by any means. But if it's becoming more of a routine situation, really think about how that's driving or how it should drive the assumptions in your interest rate risk model.

MR. DEAN: And I would also add the severity of the recommendations that are coming from examiners are less severe in examination reports, and when I compare with Kristie, you know, that has been really the bulk of the areas of recommendations to bank management in regards to the assumptions that you're using in the modeling.

MS. OLESIUK: Okay, and our last topic from the risk review is liquidity, also something that we heard from many of you. So the chart here shows the relationship between the share of liquid assets and wholesale funding that we've been seeing industry-wide. This chart is just for banks under \$100 billion in assets. There

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are several other charts in this section of the report if you're interested.

So the trends here -- we see increasing use of wholesale funding and declining use of liquid assets, I think in large part to fund the loan growth that you all talked about. So we're -- and to that point -- and there's a chart in the report that highlights this even more, we're seeing that this gap between wholesale funding and liquid assets is even greater for banks with higher concentrations in lending, and we looked at it for many different types of lending.

So commercial real estate, residential real estate, agriculture, banks that are growing those concentrations, this gap is even larger. So with that, I will pass it to Kristie for her comments.

MS. ELMQUIST: Sure. On a regional basis, we also observed a decline in the balance sheet liquidity over the last several years, and

the movement towards I guess more diversification of the funding base. Lori mentioned the CSBS event that was a week or two ago, and the 2019 CSBS National Survey. That was a part, a product that was distributed during that event.

It showed that one-third of the bankers that responded to that survey indicated that they ranked either core deposit growth or the cost of funds as their greatest challenge, and we definitely are seeing that in our examinations. The report also showed that banks were going to either plan to continue to use or expand their use of wholesale funding going forward.

From a regional perspective, we did see the cost of funds increase about 40 basis points from a year ago, and I imagine, as many of you suggested today, reversing that, even though rates are declining, might be a little tricky with regard to competition and the desire for consumer/customer retention.

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Switching gears a little bit from an examination recommendations perspective with regard to liquidity and funds management, we have been making recommendations to improve cash flow analyses to fix certain gaps that we've identified. We've definitely spent some time reviewing and encourage you to review and update your contingency funding plan, just to ensure that the assumptions are reasonable and that the collateralization of lines that you've used, that you're thinking about the collateralization effect in different kinds of scenarios appropriately. Just make sure you're considering the collateralization.

The last thing I would just mention is as we do have a growing use of different types of funding, make sure that you have established good risk limits for your policies, to make sure that your management team understands what the risk limit is for your use of different kinds of alternative funding.

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MS. OLESIUK: Okay. So for this report, we plan to publish at least annually, so our next report should be coming out hopefully in the first half of next year, and feedback from the industry at events like this is definitely helpful. So if you have any suggestions for topics that we should be covering that we didn't, I would certainly be open to feedback.

MEMBER DONNELLY: Yes, a question if I may? Just on the ag piece in the Midwest, an observation first. Similar to the expansion that's been going on for what, ten years now, it appears that the -- at least in Kansas -- that the agricultural decline is similar. It's extended or it seems to be delayed in its nature, and we're just now seeing ag real estate prices fall, but they're falling slower than normal because of this expansion.

So, and especially in the area where we're exporting most soybeans, corn, not necessarily wheat, but so that expansion and part

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of the level raised the concern in Kansas because it is slower, but now it's starting to pick up, and there's no improved outlook in the future. So are you connecting that taking the same thing if you go back and living through the ag crisis of the '80s, how it peaked and how it moved, that it's just almost like this is extended out? So getting in front of it is really important. So are you seeing that? Do you forecast that out, that it may have the same ramifications like back in the late '80s, but it's just extended out farther? I hope that makes sense. But do you see that happening?

MS. OLESIUK: So we don't, we don't do forecasts necessarily of what would happen in the industry. But I do agree with you, that the -- there are some important differences in the current conditions relative to what happened in the late '80s. I think one primarily is the level of equity that both farmers themselves and farm banks are entering this downturn, I think,

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in a far better and stronger position to weather this downturn than they did in the late '80s.

So yeah. I agree with you with the trends that yes, we're seeing some declines in farmland values, but the levels are still fairly modest. The levels of decline are still fairly modest.

MEMBER DONNELLY: Okay, thank you.

MS. ELMQUIST: I would also, maybe also just suggest that from an exam perspective, the collateralization, the loans and reviews that we're looking at today are significantly different than what we saw 30 years ago. So the protection level and I would also say just the amount of guarantee lending that's done in that space is also a nice buffer. So I agree with Shayna. I think it's a really different picture from the prior ag downturn.

MEMBER DONNELLY: Thank you.

MEMBER MALEY: Just one comment relative to the agriculture exposure also is, you

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know, I think banks need to look at how do you mitigate that risk. One of the big things is know your customer. In Lancaster County, we have a Chief Lending Officer, Bill O'Brien, that's been in the business 30 years. He knows exactly who his customer is, you know, touch base with them.

I think if you can mitigate the risk that way. I mean, the farmers are up against a lot of challenges, be it weather, be it pestilence. I mean, they really have, foreign imports. They really have a lot of challenges, but the good ones are the ones that have succeeded throughout these downturns historically. So I think, you know, that's what we do. We build the relationship, how we know the customer.

MR. DAVIS: Okay, thank you very much. Next up is Pat Mitchell. Pat is Deputy Director of the Division of Insurance and Research. He's going to go over national conditions for community banks by sharing some highlights of our

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Quarterly Banking Profile. And then Pat's also going to touch on small bank deposit insurance assessment credits.

MR. MITCHELL: Well, thank you. I'm very honored to be here to talk to you all. There's going to be some expansion. I'm not going to get on the exact same topics. But certainly to the extent that there's aggregate data, it's good that it's reflective of what we're hearing here from a -- this is kind of from a top level down. Hearing it all from you from the bottom up, well it's good to hear that we're hearing some more, we're thinking and seeing similar things.

So now we'll go through these slides, and again I'm happy to stop if you have any questions or want to discuss something, just let me know, just interject. So the growth in -- these are for community bank only results. So the growth in net income, again it's been -- I would call this slide more of the same. It's

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been this trend for a while. We continue to see strong growth in net income.

And really when you look at all the components, there's nothing really alarming or significant change here. There's a small blip on the realized gains on securities, but of course that's always going to be -- on loans and securities -- that's always going to be slightly volatile. But nonetheless, it's not a significant contributor to the overall, the overall story. But net income was up eight percent over the year in second quarter, again across the board improvement.

So now this is a story that I think we've all been talking about, and you know, one thing I would know right here in just looking at this chart, this chart doesn't -- I don't think this chart tells the story that we're likely to see, as you've all talked about and mentioned over the next, you know, next quarters, years.

I mean, one thing to remember about

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the second quarter, as of the end of second quarter, we have had nine interest rate increases from 2015 on, and in fact we've had two cuts since. And of course the yield curve now, as you all know, the yield curve is flat, inverted frankly, from you all's perspective, you know, flat and inverted is, you know, is materially the same.

So, you know, we sometimes like to talk about wonky things about inversions and so on and so forth. But it's a challenging interest rate environment, no matter which way. Of course what we had seen on the net interest margin up until now has been slow. As the increases have come along, you'll get -- the deposit betas have been slow, the repricing of deposits have been slow, and just recently, at least in the aggregate, and each of you might all have a different story, just recently in aggregate, you had started seeing some traction of deposit cost increases getting passed along. I'll call it

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catch up, even as rates had subsided.

Now we have the two cuts of the last quarter, and I think the direction of deposit pricing, I think you've all mentioned, is a little less clear and the question is, "Is there still more catching up to do?" The competition and the competition for deposits, how is that going to drive it? Certainly I doubt you will see any 50 basis point reductions over the last quarter in your deposit costs.

So I think that's a true, you know, true challenge. You've all mentioned it. But nonetheless, one thing to note here is that the community bank net interest margin continues to exceed the overall industry, and one of the things the last quarter you'll see is the industry actually declined, you can see a little bit more, and that was the case of where some of the larger banks had exposure to -- well, they had loans that were tied to more market-based instruments, that were tied for example to LIBOR,

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that actually would have reset during the second quarter because of the market, the forward-looking nature of those instruments, and less so in the -- so I think you see maybe a little bit of, some of the future decline in them, but we will see in the third quarter results.

MEMBER EPSTEIN: Can I ask you a question real quick?

MR. MITCHELL: Sure.

MEMBER EPSTEIN: So this -- our favorable net interest margin as compared to the industry as a whole and our larger regional and national banks is obviously a product of our having higher earning or higher yielding assets, not a lower cost of funds?

MR. MITCHELL: Right. So that --

MEMBER EPSTEIN: How does our cost of funds compare? Because you know, we've have mentioned we're asset sensitive. So obviously we're going to see a retreat in those yields. But at least in our specific experience, we are

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a little bit hamstrung right now. To reprice our deposits in any meaningful way, that puts that funding at risk.

MR. MITCHELL: Right. Yeah, so that's an interesting point. So on funding costs, for the last six quarters through the second quarter, community banks' funding costs have been actually lower than non-community banks. However, that was a reversal of the trend from first quarter '08 all the way through first quarter '18.

So, you know, the question, I think your question is certainly relevant and I think we'll see. Certainly, there are a lot of non-community banks that are really competing for deposits, and their pricing is going up rapidly. And obviously all this -- the industry is -- it's influenced heavily by the largest institutions. Again, they're less loaned up, less yield.

So it really is a -- it's a mixed story. I think, you know, it's uncertain as far

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as how quickly deposits will reprice. Does that help?

MEMBER WILLIAMS: While we're on that, along that same line, it appears to me, anyhow, that deposit betas are on a downward trend, given liquidity issues in the industry are going to be much, much lower. Are you seeing that?

MR. MITCHELL: I don't know that we're seeing it yet, but I think we anticipate what you're saying. In fact, I wouldn't -- I'm not projecting, predicting, but you may even still see a negative I mean for a little bit, in that they may continue to pick up over this quarter -- or last quarter, third quarter now, while we saw two rate decreases.

MEMBER WILLIAMS: Yeah. We're kind of seeing the same thing.

MR. MITCHELL: Right. There's still some of the catch up that's going on where there's still competition for deposits, people are

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looking for deposits and there's some fishing for some institutions paying it, you know. I think depositors are saying whoa, hold on. I can now get paid on deposits, shopping around. I mean, you're living it. So --

MEMBER WILLIAMS: That's kind of what we're seeing.

MR. MITCHELL: You know, the third quarter numbers will be interesting to see. But again, I would even there say not fully reflective in that, you know, the last cut -- so there's a cut in July and then the most recent cut was really at the end of the quarter in September.

So, again, I think there's always going to be a little bit of a lag. And I think we're anticipating some of the story of what you're seeing. But, yeah, we'll see what the numbers say.

MEMBER DONNELLY: A question on -- you had mentioned that obviously the -- big banks do

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a lot, soak up a lot of liquidity in the market. But in your charts, do you have any separation between the non-bank deposit gathering that's really coming online rapidly now? It started in '08 or whenever it started. Do you start to separate the big banks and the non-banks that are taking liquidity out? You go online, a non-bank, be that a brokerage house or something that is now offering deposit --

MR. MITCHELL: Oh I see.

MEMBER DONNELLY: -- Rates and --

MR. MITCHELL: I mean our numbers are -- we haven't really -- we reflect it just in terms of --

MEMBER DONNELLY: Just in the insured piece of it?

MR. MITCHELL: Yeah, yeah -- With, you know, with the bank itself. So you're talking about originating in a non-bank, kind of a brokered deposit type? Or even where you have --

MEMBER DONNELLY: Just everybody's

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taking deposits nowadays. A lot of them are not insured by FDIC, and how much of that's coming out of what was traditionally in the banking industry?

MR. MITCHELL: So your thought -- when you say not insured, deposits not insured by the FDIC, are you talking about more like money market?

MEMBER DONNELLY: Yeah, yes. I mean you see all -- any day on the Internet, somebody's offering you and says but I'm not FDIC insured.

MR. MITCHELL: Right. You know, to the extent there are always, there are always going to be other competitions, and in fact when rates were really low, I mean I'll just use money market funds as an example. I mean they weren't very attractive for anybody, and now you have to compete with those that effectively are Treasury types --

MEMBER DONNELLY: Yeah.

MR. MITCHELL: So I mean I think as

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rates have increased, you're seeing additional opportunities for people to compete for the deposits. In other words, a depositor has a lot of -- they have a lot of options on where to park their money.

MEMBER DONNELLY: You know, I was just looking for it. Are you distinguishing between the percentage? Is that growing as a percentage over time or can you identify, can even identify it?

MR. MITCHELL: I'm not sure we can -- I mean we'd have to look closer. I'm not sure you can identify them in a way that you're looking at. But we can look closer at that. I don't think - we're still seeing strong deposit growth in the industry, and that would be the indicator really. If they have a net loss in deposits, we're still seeing very strong deposit growth. I think the indicator that, you know, deposits are still, banks are still, people are still broadly speaking putting their money in

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banks, using that as a deposit.

MEMBER DONNELLY: Thank you.

MR. MITCHELL: Okay, so it's still a positive story right now, but next quarter we will see. It will be a challenge. Pretax ROA. So on this, in this case, again this is a story where it increased at community banks, and it declined mildly at non-community banks year over year. You know, the gap was widening at non-community banks. It's kind of a, it's a little bit of a mini-story here right, moved up in conjunction with them. And you know, last quarter it narrowed against the industry about 12 basis points. So and also I note here 96 percent of community banks reported a profit last year, so again positive, mostly reflective of the previous slide.

Net operating revenue as a percentage of average assets. One thing always remarkable to me about this slide is how steady it really is. When you adjust for assets, this has really

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remained amazingly stable over a long period of time. Net interest income was up 5.1 percent last quarter, and non-interest income up 4.7 percent. So there we see very strong growth over both aspects.

And now to go back to a recurring theme, and I won't spend -- I'm not going to reiterate all the points here, but the asset quality story that you all have told and the numbers are very small. We really have to be -- you literally have to squint, and then we have to blow up the box to show any type of movement, even when looking at and including things such as farm loans, which is the one area I would note where there's a slight diversion.

But really asset quality overall is still strong. Farm loans, roughly 1.28 percent last quarter non-current rate, up 1.13 basis points. But again, due to all the aforementioned, previously mentioned areas, it's still a relatively low non-current rate,

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especially when you provide for the fact of how long you had sustained low farm income.

So really it's shown strong resilience due to the bankers working with the farmers, the carryover debt and the strong, the strong farmland values.

I'm going to dive a little bit deeper into this, because this is the only real -- at least a current, right now credit story out there. This is just to breakdown the non-current into farm loans that before previously in other slides we had aggregated, now it's breaking it into farmland and ag production.

We can see a slightly stronger uptick again, not at an alarming level, a slightly stronger uptick, in the non-current on farmland. But as everybody mentioned, the farmland values remain strong and the collateral coverage really remains strong, which we're going to show on the next page. Sorry, two pages from now we'll show it on the charge-off rates.

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So this one, this slide, again we want to get a little more granular. It's not -- so we talk about ag, we talk about farm. It's not the same story everywhere and not the same story at every bank. So this is just to show, the way this chart works is the box in most of your charts. So the green dot is the median bank. The 75th percentile is your top quartile hash. The 25th is the bottom hash, and what we're showing here, are those states where there are at least 20 farm banks.

So we wanted to make sure that there is a reasonable concentration of farm banks, and just to show hey, how are the median banks doing relative to other states, and again how are you -- how is the tail bank doing? It's not quite the tail, you know, it's the 75th, because really at least, you know, you tend to not have -- the median bank doesn't fail. It's usually the banks that are under stress that are out further towards the tail.

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And one thing that, you know, amidst all the press, you can see here I think -- Lori, I think you mentioned the challenge in dairy, and you can see that here with Wisconsin, where at least the 75th percentile are the highest and the median. Again, I don't think these rates are alarming, but it does show that there's some dispersion when you get into a little bit deeper, rather than just looking at the aggregate problem.

And then this is what I was alluding to, when you look at net charge-off rates, again you have to blow up the box to see any type of movement up or down, and certainly it's very difficult to go down. It's at 11 basis points. It's two basis points off the aggregate, two basis points off the recent low, and this is 46 basis points lower than the industry when looked at in the aggregate.

And again, this is -- so this is the charge-off story. When you look at the farm loan

charge-offs and you really, it even underlines, underscores even more the strength of the farmland value and the working with the farmers, that even though you see more of an uptick in the non-current, the charge offs are still very low, slightly uptick again. You almost have to squint at this one.

So here's another -- everybody's mentioned this. Loan growth has remained strong. 6.3 percent year over year for the community banks. It's 4-1/2 percent for the industry. So this has been a long five-, six-year story in terms of community banks outpacing non-community banks in terms of loan growth. And it's pretty broad-based in terms of, in terms of growth.

You know, this is something where you see that continuing to lend into the community -- this is a challenging lending environment, you've all mentioned that. I don't know whether we're going to see this tighten a little bit or slow but, you know, we'll see.

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And then this slide has been a long-term trend also, certainly post crisis. If you add up the loans and the securities greater than three years, you come up with almost 50 percent, so 47 percent. At the height, it was 50 percent. So this has actually helped in the environment. It's a good help in the environment, actually reduced some of the compression.

You might see more in the industry where they are more sensitive to repricing assets. So, but nonetheless, you can see a material change since -- just coming out of the crisis it was 37 percent of combined loans and securities greater than three years, and now we're at 47 percent. It's just merely a trend, but it's also coming down slightly.

This is another look. This is a community bank look at the liquid assets. So liquid assets and wholesale funds, again slightly different than the aggregate story. But that looks similar in that the wholesale funds seem to

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have stabilized around where they are in aggregate, and so have liquid assets. You can see this steep decline over time, as community banks have become more and more developed. Nothing surprising, nor is there any strong trend now.

Moving to capital, capital continues to build. It's higher than the industry. They continue to improve. Then the last slide is, you know, I know several of you mentioned this. Consolidation. So it continues, continues. The long-term rate is about four percent for the industry. This is the industry.

Community banks have actually had a slightly lower long-term average of closer to three percent over the same time period, from '85 to 2019. You can also see there are periods. Let me show you. When I say -- so the consolidation rate is intra, merger rate is inter. So some of this, what you can see is the activity at least for a period of time was heavily

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concentrated in the intra merger.

We looked at it a little bit differently, definitely a little differently. But most recently that's shrunk, as probably a lot of efficiencies have been gained as people have merged. And now what we have seen, at least post '12/'13, you've seen an increase in the percentage of inter-bank mergers, and at least at, you know, certainly at least some level you're seeing price values, you're seeing price multiples go up in terms of acquisitions.

It's leveled out. It's slightly slower this year when you look at your second quarter now. That's about four percent annualized year over year. It's of course the long-term average, but slightly lower than what we've seen over the most recent time.

Now it could be a function of many things, multiples, the challenging interest rate environment. As you all know, there are a lot of factors that drive, drive these decisions both

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in terms of buyers and in terms of sellers.

MEMBER EPSTEIN: Are you expecting Patrick as -- we won't discuss the pressure on our margins, which obviously is going to create pressure on our earnings. So are you anticipating that there will be an uptick in merger activity, as banks are not as independently profitable perhaps and are needing to find economies of scale to combat pressure on their margins?

MR. MITCHELL: Yeah. I think that's -- I don't -- so I'm not sure if that's actually going to fully, fully drive it, because that also can drive down -- well, it could be a driver, a one-off trying to get economies of scale. We have studies out there that say economies of scale, in our 2012 community bank study, economies of scale are reached around \$500 million. After that, it's not as much of an effect, and again every bank's going to be different.

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I think that that really depends also on the economic outlook. That can be part of the story, in terms of how optimistic people can be, because again I think what you saw as coming out of the recession, banks said buyers were a little less willing to maybe do the -- well, let's go in the balance sheet, there are some concerns there.

Also, you have people not willing to sell at, you know, low multiples if you don't have to sell, if you're not a forced seller. So I think that -- I think that the price multiple is a big driver. I also think that, you know, if it gets too high also, you have to -- yeah.

So yeah. You know, I don't know. I think that -- I think you can see that during the time of rising rates there was slightly more optimism. You had, you had it strong, I think it's stronger than average. Then well what do you think? Do you think that it could result in --

MEMBER EPSTEIN: Well you know -- it's

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not the outlook -- it's not the outcome I'm hoping for, but I am concerned that there's going to be another wave of consolidation as banks, you know, see this pressure on their earnings.

You know, we've talked about other issues that come to bear on those decisions too, such as succession planning, and the FDIC, just to their credit, has done a nice job of encouraging community banks to plan appropriately for succession, so that part of the succession plan isn't well, we'll just find new management that will take over our institution.

I'm concerned about it and I can't help but ask you, you may not be the appropriate person to answer this question, but I would hope the FDIC is approving the sale of a community bank to a credit union only with some degree of reluctance, and that there is not another path forward for the selling bank, that there's not another suitor that's a community bank or -- I mean I can understand if the only buyer in a

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situation where a bank has to sell, you know, for the betterment of the community in which it's located, and you have an obligation to protect the taxpayers. But I've heard of a few that don't seem to fit that scenario, and I'm just curious what the FDIC's thoughts are about that because the fact that the credit unions, some have been successful in acquiring community banks, I think is only whetting their appetite for additional acquisition opportunities.

MR. MILHORN: So Doreen Eberley is our director of Risk Management Supervision, and I think she can speak to this very question, which we have discussed ourselves.

MS. EBERLEY: We have, and so first I would just let you know that there is no application that comes to FDIC to approve that merger. The acquisition application goes to the NCUA. The application that comes to us is on the very back end of that. When a bank is leaving the Deposit Insurance Fund, they will file an

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application to terminate deposit insurance in the FDIC's Deposit Insurance Fund. So that's really the only involvement that we have there.

To the extent credit unions want to become insured by us, and we do have transactions that go that way, that's an application for deposit insurance of an operating non-insured entity. So even though they're insured by the NCUA, we consider them uninsured, and so we go through a deposit insurance application process before granting them deposit insurance and then have them be part of our Fund. So that's kind of the process there.

MR. MITCHELL: Sorry, out of my peripheral vision. Doreen walked in and I said, thank goodness --

(Laughter.)

MR. MILHORN: I hope that helps at least understand the process and where we play in it.

MEMBER EPSTEIN: I actually didn't

realize the FDIC role was really almost in the aftermath of the transaction.

MR. MITCHELL: Yeah, that's it -- all right. So the last thing I'm going to cover, and this is a very -- this is unequivocally a happy story. So it's small bank assessment credits. Hopefully you all know and are well aware of the amount of credits you all have earned over what we call the surcharge period, the growth in the DIF between 1.15 and 1.35 percent. We announced as of second quarter we're at 1.40, and credits would get paid once the Fund was at or above 1.38.

So we've reached that, and hopefully you all -- it actually talks about we said yeah, \$320 million of credits will be used and in fact you should have seen those recently. Just that's a tense issue. So you, I think well, it should have been applied. Probably all, most if not all of you I assume had no assessment charges last quarter, actually something very odd.

Well, there were times. So and now

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there's still a remaining \$445 million of credits to apply over the next term and so you can see here, it tails off pretty quickly. We expect to apply 238 in third quarter of 2019, leaving the remaining 207, then 144. You can see it starts tailing off quickly. Most institutions use up their credits over three or four quarters.

If you all have any questions in terms of projecting or trying to understand that, please reach out to us. We have a hotline and we'll be happy to talk to you about your specific situations. But three to four quarters, most banks should see relief, and again it really depends on certain things such as your actual assessments, how much you've grown and most earning the credits, things along those lines. So it's an institution-by-institution story.

I will say that we put out for -- this is kind of in the weeds, but it's important for you to know. So previously when we initially wrote the rule, we said the credits would only

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continue to be applied so long as the Deposit Insurance Fund is at or above 1.38 percent.

We put out for comment a rule, that now the comment period closed, that we lowered that down to 1.35 percent. When you look at the size, while we know it's all sizeable and meaningful for you all relative to the Fund size, now we're down to less. If we were to apply it all, it's less than a basis point.

So one thing we were worried about and concerned about was applying credits and then in fact having something else occur that would have put us into -- we didn't know the size of the credit when we initially did the rule -- that may have placed us into a restoration type of thing and our minimum reserve ratio has to be at or above 1.35 percent. So nonetheless, that's why the NPR was out there, just to provide a little more certainty to you, you all.

We now have more certainty on the size of the actual credits, and know and understand

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that better. So anyways that's -- this is all a good story. I'm very happy to answer any questions on this.

(Laughter.)

MR. MITCHELL: Has it all gone smoothly for you all? Do you understand your future, the future applications and all? Okay. That's everything from me.

MR. DAVIS: Great. Thank you, Pat. Next up we have Anthony Lowe, the FDIC's Ombudsman, and he will provide an update to all from his area.

MR. LOWE: Okay, good morning everyone. Well, I was feeling really good this morning until Chris made that comment about capital forbearance, and it made me reminisce back some 30 some odd years.

MEMBER DONNELLY: I'd glad somebody else remembers that other than me.

MR. LOWE: I was a young examiner in Shreveport, Louisiana, about 33 pounds lighter

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and had hair. So thanks for that.

(Laughter.)

MR. LOWE: So a few weeks ago my office provided all of the existing members of the CBAC a copy of our 2018 Annual Report of the Ombudsman Activities. In that report, we did talk about some of the cases that we handled back in 2018 at a pretty high level.

So what I wanted to do today, kind of in that vein, is to provide, kind of walk through an actual case that we've had this year from the beginning to the end, and show how the Ombudsman Office was involved in a case, and again I think this is a success story, and it shows how the complainant, the Ombudsman and one of our active divisions worked together to again resolve a matter in a pretty timely manner, you know, through a process of communicating.

So earlier this year, the FDIC was conducting an examination, a routine examination of a bank. Assets of the bank were under \$5

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billion and the ratings of this bigger institution, both in safety and soundness, compliance, and all the specialty areas, were favorable. Management was highly rated, meaning it was either a 2 or 1 rating. So again, no real issues with the bank's operations.

Gentlemen, I'm on the third slide now. So during the course of this particular examination, the examiners identified certain transactions that raised some questions with the way that they had been booked, and initially we felt there might be some violations, and there was a lot of back and forth with the bank with regard to these transactions. So the banker had some concerns about, preliminarily about these, being looked at - oh, sorry about that.

So there was a lot of back and forth with the examination team and the EIC with regard to this preliminary finding that there were going to be some violations. The banker made the case that there was a state law that provided a very

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unique and narrow exemption, and this is somewhat unique, that state law would usurp federal law. But in this particular case, it did provide a narrow exception, and the banker kept making the case that this, you know, was the case in this particular instance. But you know our examiner continued to review this matter, consulted with his direct supervisor and their supervisor, and at the exit meeting made a determination that he was going to go forward with citing this matter as a violation in the Report of Examination.

So needless to say, when the report did get to the regional office, and mostly all of our Reports of Examination now are reviewed at the regional office level, the compliance, risk, all of the specialty areas. They're all reviewed at the regional office for consistency purposes primarily.

The report was reviewed by the review folks and management level. It eventually issued and it did include the violations, you know, that

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the bank had disputed. We did include a comment in the report that the bank did not agree with those violations. So the bank eventually did receive the report. Of course, they were disappointed in the findings and concerned about the violations. The bank did make the claim or did tell our folks, once they contacted us, that it was going to cost them a considerable amount of time and money potentially to correct these violations because there was going to be a look-back that was going to be required to fully remediate these violations.

So the bank, after they received the Report of Examination, contacted one of my regional ombudsmen and had a discussion with him, and asked what can we do? What should we do in this particular situation? So the regional ombudsman, as they usually do, you know, kind of went through from soup to nuts, the A to Z of all of the available options.

Number one of course, as we always do,

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have you had direct discussions with the examiner? Have you presented, you know, the alternatives of, you know, how you arrived at your conclusions versus the examiner? Have you asked to speak with, you know, direct supervisors, the field supervisor? Have you thought about, you know, asking to have a meeting at the regional office level or with the regional director? Have you asked for an extension of time to file your response to the examination?

And we also, you know, did talk about the formal appeals process, but we did say that should be a last resort. Let's think about first trying to approach the region and, you know, have a discussion, a meeting or whatever the case might be. That was the approach that the bank settled on, was to prepare some correspondence to send to the region.

In that vein, we also told the bank it would probably be to their advantage if they had a legal opinion to back up their position. They

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should include that with the correspondence that they were preparing and going to send to the regional office, which is what they did.

Before they sent the correspondence to the region, they did send the correspondence to our office and asked us just to take a look at it, and we told them, "We can't write the correspondence for you, but we can just take a look and make sure, from our perspective, that you are focusing on that one issue, you know, that you think is egregious and that you think needs to be addressed."

The bank completed the correspondence and did send it to the regional office, and eventually it was being, got to the point where, it was being reviewed by the region again. Once the report or the information that the bank submitted was reviewed or received in the regional office and I think I'm up on Slide No. 4 now, with the ombudsman as an intermediary, the information was shared with the region's Legal

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Division, to take a look and see again did this have merit?

Was there actually some type of exception as the bank had claimed initially during examination and that was indicated in the supplement that was provided with the package that was sent to the regional office? It did not take long for the Legal Division at the regional office to come to the conclusion that the bank's information was correct.

We provided that -- that information was provided back to the Supervisory Division and the Report of Examination was corrected, and a revised Report of Examination was eventually submitted to the bank with the violation eliminated and removed.

I think there was a positive outcome here because there was again some additional communication, I think because the Ombudsman Office did become involved in this situation, that we did facilitate, you know, the bank

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thinking about some alternatives and also, you know, assisted the bank in thinking about alternatives, beyond just thinking about an appeal or, you know, doing anything rash.

You know, we always -- as I said before, we always encourage banks try to resolve your issue with the examination team or with the region. Sometimes it can just be a miscommunication or some additional information that needs to be exchanged and usually, I'd say 99.9 percent of the issues or disagreements can be resolved at the local level.

That's what we always encourage our bankers to do when they do contact us. That's one of the first questions we ask, is "Have you had that discussion? Have you presented this additional information that may, you know, shed a different light on this issue that again can exonerate or put a different light on how the examiners are looking at this particular matter?"

So this slide says, Lessons Learned,

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and I just really would say what are some of the outcomes or what are some of the successes here, some of the things that maybe could have been done differently.

Again, you know I would stress that this was a well-run, well-managed bank. One of points that I don't think I stressed earlier, the bank had been conducting these transactions for over 20 years. So they had gone through four or five examination cycles, and they had never been cited for any criticisms or any violations.

In that particular situation, from an examination standpoint, we probably could have or should have stepped back and said, "Hey, let's take another look. Let's do some additional analysis and let's figure out why we have not cited this as a violation for this bank." And also, you know, give a little bit of deference to management since it was a well-run and well-managed bank. Let's go ahead and do some additional analysis and maybe get our Legal

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Division to take a look. Also from the bank's standpoint, since they were so adamant that this was an incorrect call, you know, the bank probably should have or could have put together, early on, put together a legal review, some type of a legal analysis that they could have provided to the examination team early on.

Also, when the report, you know, the draft report got to the regional level, again there could have been, there should have been, some additional analysis and definitely some additional analysis involving the Legal Division, consulting with the Legal Division.

So again, this is just one case that we had again earlier this year and I just have to throw out the disclaimer that no two cases are typical. Every case has to be looked at just a little bit different. You have to look at the facts and circumstances. Not all of them get resolved this way. Sometimes, banks have to consider other alternatives.

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But you know in this particular case, again I think there was a favorable resolution because we got to the point where an accurate Report of Examination was issued, and the bank, you know, prevailed and did end up getting the situation resolved in the manner that they thought it needed to be. I'll stop there and see if any questions or comments.

MEMBER PITKIN: So I have an observation. I'm sorry.

MEMBER KELLY: Go ahead.

MEMBER PITKIN: It's just that I have an observation, and I mentioned it in the hallway. I truly appreciate the fact that a success story of the Ombudsman was that the FDIC was not correct, and that sets the appropriate tone with regards to those of us that always hear some things about interpretation, interpretation.

The other question I have is was there any discussion with regards to how much time,

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energy, effort, resources and cost that something like this does cost, and is there any consideration with reimbursement or was there any consideration to reimbursement for the bank, which at the end of the day, it was basically proven, or they had to prove, that they were innocent, when basically it was indicated that they were doing it wrong?

MR. LOWE: I'm not sure that we had any discussion about any reimbursement per se to the bank. But I do know that we do have these type of discussions, that when we do identify an issue that, you know, we should have maybe done some additional investment of time or resources to make sure we got it right, that we do from a remedial standpoint try and have a discussion with our staff and make sure we don't make that type of a mistake again.

So that's, I guess, the investment or what we do, and just think going forward, let's try and make sure, you know, that we -- to the

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degree that we can -- not make this mistake or error again.

MEMBER PITKIN: Thank you.

MEMBER KELLY: Anthony, thanks for sharing this. This is a great success story relative to the last discussion we had. So I appreciate you sharing this particular business case. The question is I thought I heard you describe, there was the potential for a 20-year look-back, which suggests that it was probably fairly material to this institution.

What policies or what guidelines are in place on a look-back, especially when the item has probably been either looked over or maybe not captured in the review process? Is there a way to improve that?

Because I think of myself, and you know, if you have missed something, not you personally, but if there's been something missed in a review and then it comes back and it goes back 10-15 years, it automatically causes us to

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be quite defensive because it appears we didn't know and apparently you didn't catch it so to speak.

Now I understand it's risk-based, so you're trying to get the big things first, and then you drill down. But I'd love to have your thoughts or your response to that.

MR. LOWE: Yeah. You know, the 20-year look-back, that was the bank when they were having a discussion with our regional ombudsman. I doubt that we would have required the bank to go back that far. I know when we've had some other cases where we've had a bank go back, you know, sometimes maybe five years, seven years, I doubt we'd have them go back that far in time because records, some of that information may not be readily available or may not be accurate.

But you know, again we try to be prudent, try to be reasonable with the institution, and you know, if there has been something really egregious, you know, we may

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think about how far back can we go and how far back are the records accurate. But you know again, that's going to be dependent upon what records are available and how egregious the potential action or non-action is.

MEMBER KELLY: Great, thank you.

MEMBER DONNELLY: Anthony, just would you clarify what type of legal opinion you -- I know you can't get into detail who it was or not. Is that just my own attorney or is that state banking department attorney, or is that an independent third party? How would that be?

MR. LOWE: You mean for the bank?

MEMBER DONNELLY: Yeah. What --

MR. LOWE: The bank themselves got their legal, outside legal counsel.

MEMBER DONNELLY: Their own outside counsel?

MR. LOWE: Right, yes.

MEMBER DONNELLY: Okay, thank you.

MEMBER DeBIASI: Anthony,

just -- excuse me -- a couple of comments. I know the last meeting we had a pretty good discussion on your presentation regarding any feedback from the banks as to the Ombudsman's Office and why you would or would not use the services. Because I know their usage has been low for a lot of reasons in recent years. I know the Ombudsman's Office with the strong examination cycles we've been in, it probably feels more like the Maytag repairman lately. There's just not a lot of reason to bring an issue to the Ombudsman if you're satisfied with your exam.

But I know one of the issues that came up is, you know, especially for smaller community banks, is fear of reprisal, you know. Somehow if we take this to the Ombudsman or we try to take on our regional office, that somehow it's going to work against us somehow in the end. I think that was a pervasive feeling among some community banks, which you may have indicated in

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some of your surveys and findings.

So one thing, one comment I would like to make regarding in our region, in the Chicago region, I know the regional ombudsman has worked very hard, which is Dan Marcotte, to really reach out to the banks. He's reached out to us and we feel like we have a comfort level with Dan, you know. He's visible, he stops in, he calls, he checks up on us.

And you know, it's a good practice and we appreciate it, and I know he's even worked with our trade association in Ohio to attend as many functions as he can. So I think that should go a long way in alleviating some of that nervousness amongst banks, particularly if we start to go into a down cycle and maybe the exam process starts to become, I hate to use the word, contentious, but it starts to become a little more intense.

It's nice to know that that is out there and that an Ombudsman Office does exist and

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they're real and they're willing to help. So that's the feel that we've gotten in our region. We appreciate that.

MR. MILHORN: Can I -- can I just -- just a clarification for my purposes. But going back to Chris' question I think on the legal opinion, that's not something we would require. It's just something that the bank could provide as additional evidence of compliance.

I mean if they came, if they came with a question and they didn't have a legal opinion, we could still have the conversation and try to resolve it. It's just if you've got it laying around in the file cabinet, it's something that we can take a look at. Not, or you know, if you feel compelled, it's your decision to go out and get it. But it's not something that we would be required to get, to have the conversation.

I think that's the important point of this story, is the role that the Ombudsman can play in keeping that line of communication open,

short of formal appeals and, you know, digging in, and I think that's the goal of the office. And ultimately, our goal is to get it right. We're not always going to agree, but we want to get it right. So having those lines of communication is great.

MR. LOWE: Thank you.

MR. MILHORN: Thank you for that clarification.

MEMBER EDWARDS: Anthony I can just, well just encourage folks around the table here as well, that you don't have to go to the Ombudsman to have that process work. What you're saying as well. I can give you a good example since Mike is here. Probably four or five years ago, we had -- no, it's good.

(Simultaneous speaking.)

MEMBER EDWARDS: It's good. Mike might not even know about it but it was good. We run a Trust Department as well which also handles self-directed IRAs. It's a small part of our

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overall business, never really been looked at all that closely. Had an examination. It was rotated through and examiners looked at it, and they had some questions about how we were handling certain accounts there.

We felt like they were -- what they were asking us to do was going to basically make us a fiduciary when we're a custodian. So we had a good conversation at the exam. It did get in the report. We went, had a conversation with our outside attorneys and they said you know, "We're concerned about you guys doing what they're asking you to do here."

And so, you know, we had a conversation with the folks in Atlanta. It was not adversarial. We just said, "Hey, this is our -- this is our issue, it's our, you know, this is what's there, what we're being told." We had a good conversation with them about this and they looked at it, spent time with it and we got it resolved.

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And not that we were all right and they were all wrong. It helped us also -- our process was better on the back end of it. But I'd never really done that, where I had gone to the FDIC and said, "Hey, I've got an outside attorney here telling me something different here," and I was nervous about it. But we didn't feel pushback. Everybody said, "Yeah, let's look at it."

So I just would encourage everybody, this is outside of the Ombudsman, if you really feel like something's not right, you know, pick up the phone and call your folks in the regional office and just be honest with it, and we had a good outcome with it.

MR. MILHORN: Yeah. Like Al said, you know, we're not, we're not consultants. We're not your lawyers. Ultimately, the business decisions are yours. But really we are always willing to engage, whether it's at the local level, the regional level and even back at

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headquarters to work with institutions on questions like that. I think that's fair. I'll let Doreen, you know. That's --

We see that as our role. Like I said, we're not always going to agree, but the engagement is something that we can help. It helps us identify and mitigate risk. It helps you all do the same thing, which ultimately is the goal.

MEMBER EDWARDS: Sure.

MEMBER PITKIN: Anthony, could I ask one last question? I apologize I wasn't here at the last meeting, of which it sounds like you had a discussion. So do you track whether internally and/or for a public record the successes, so to speak, of the actions that are taken through the Ombudsman?

So in other words, you know, who is coming to the table with the issues and the outcome? Do you track that?

MR. LOWE: We have some internal

metrics that we do, we keep some information with regard to cases that are brought to our attention. I don't know that we, you know, have a running tab per se. But we do, with all the cases that come to our attention, we try to get them resolved.

Again, we're not trying to say that they're all successes or anything. But we try to get them resolved, to the point that the bank clearly understands at least how we arrived at a decision, how the supervisory divisions or if it, you know, if something was regarding even the resolution folks, how they arrived at the decision, or a FOIA request, you know. How decisions were resolved to make sure it was a fair process.

That's what we're trying to do, is make sure that at the end of the day the bank or whoever has contacted us thinks it's been a fair process and they understand how decisions are made.

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MR. MILHORN: And one of things the Chairman has instituted since she got here is every other month, we have an operational review for our Division of Risk Management Supervision, and then our Division of Consumer Protection. All our leadership sits around the table and Anthony and his team are there.

So we make sure that we understand the feedback we're getting from our institutions through the Ombudsman, as well as any trends that we're seeing on examinations. We think that's been a very helpful process.

MR. DAVIS: Okay. Thank you, Anthony. At this point we'll go ahead and break for lunch, and reconvene here as close to one as possible. Thank you.

(Whereupon, the above-entitled matter went off the record at 12:01 p.m. and resumed at 1:10 p.m.)

MR. DAVIS: I think we'll go ahead and get started. It looks like we've got a quorum,

and we're a few minutes behind. At this point, we want to provide the committee with an update on several supervisory issues. I'm going to turn the program over to Doreen Eberley, the director of the Division of Risk Management Supervision, who will introduce our panel and cover the first discussion item.

MS. EBERLEY: Thanks, Chad. So we're going to break this panel into two because we've got a lot of topics to cover. So this is our first group, and I have with me Tom Lyons, who's section chief in our Policy area; Ben Bosco, who's the section chief in our Capital Markets area; and Shannon Beattie, who is a section chief over our Accounting and Securities Disclosure area.

So Tom's going to talk about a Notice of Proposed Rulemaking relating to interest rate restrictions applicable to institutions that are less than well capitalized. He's also going to talk about the new appraisal threshold for

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residential real estate loans. Ben's going to review the final community bank leverage ratio, and Shannon's going to talk about FASB's exposure draft on effective dates for CECL.

But before they get started, I did want to take just a couple of minutes and talk about a financial institution letter that we issued in August, addressing risk-focused forward-looking supervision. So you do have a copy in your materials there. So this financial institution letter or FIL announced an update to our Manual of Examination Policies in the form of a new section.

The section's titled Risk-Focused, Forward-Looking Safety and Soundness Supervision. The new section describes our long-standing philosophies for conducting examinations, and the methods that we use for supervising institutions, by focusing on the areas presenting the greatest risk. Hence, the risk-focused title.

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It also explains how we conduct examinations, from the planning stages until the time that we mail the Report of Examination. So I wanted to highlight just a few items in the document for your attention. First, one thing that we changed was how we plan for an examination. So the actual process of planning has been accelerated. We've moved it up. So about 90 days out, you'll be contacted by your field supervisor or supervisory examiner. They'll ask you a few logistical questions to see if we can do loan review offsite. They'll ask about connectivity, and they'll send you two questionnaires: the IT risk profile script that you're used to receiving for our InTREx examination, and a new examination planning script to ask about changes that have occurred in your institution since the last examination.

So we've then also accelerated the timing of the exam planning by the examiner in charge. So that's the 90 days out. Six to eight

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weeks out, the EIC will actually come into the office. They'll review the materials, the answers that you provided to the exam planning script. They'll spend time reviewing the prior Reports of Examination, the UBPR, looking through the correspondence files, talking to the case manager, learning about what's happened since the last time the bank has been examined, and they'll reach out to you during that period of time as well, and talk to you about their exam plan.

Some of the things that are different here as we've broken this into -- this all used to happen, but it happened much closer to the examination date. So we've moved some of those exam planning activities earlier in the process. The examiner in charge will, once they've done all of that activity, develop a preliminary view of what is the institution's business model, risk profile, complexity.

Then they'll develop a preliminary exam plan based on the institution's actual risk

profile. They'll develop a request list that's tailored to the exam plan. So we're hoping that our request lists will become even more tailored than they are now, and we'll be asking for less information. And then they'll make a preliminary determination about the exam activities that can be conducted offsite. So we'll go back to that initial question 90 days out. Do you have imaged loan files, can we review them offsite? We've got a couple of different ways to do that, and they'll ask about connectivity at the institution, to speed our examiners' work. If we need to add a circuit in the institution, we can do that.

The second phase of exam planning is going to occur about two weeks ahead of the exam on site start date, and the EIC and any available staff will start to work on an off-site basis on any of the materials that you've submitted. They'll go through all of the items we requested, they'll start the examination work, everything

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that can be conducted off-site. Some staff may work off-site through the entire examination.

In combination, we do think that these changes we've made to just our actual planning process will provide for a more focused and shorter time on site. We've already heard some positive comments, so this program, the changes to our exam planning really became effective October 1st in planning for examinations that will start in January. But this is something we've been training our examiners on and walking through the changes to the process with them over the course of this year, so some have already started, and we've heard positive comments from bankers that have already experienced these changes, more focused examination, fewer people on site, people leaving when they were done, you know, so you didn't have as many people in the institution over the course of the examination.

And then a third item I wanted to highlight about this is that we did reemphasize

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in this new manual section principles that we adopted as a member of the FFIEC, along with the other banking agencies, about the importance of clear and transparent communication and risk tailoring during the examination process.

So those principles are set forth in this new manual section. I wanted to just harken back to the last session and talk about one of those principles for communication, which is inform institution management of areas under review. We'll do that ahead of time in the planning process. We'll tell you what we're going to do. We'll talk about it during the examination like we do now, and provide management the opportunity to communicate any additional information or clarification before the conclusion of the examination.

I think the thing that I really wanted to emphasize here is that if you're experiencing any difficulty, we've always asked, you know, please raise your hand, let somebody know. Don't

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suffer in silence, and if you feel like you're trying to share information with an examiner that they're not receptive to receiving, raise it up the chain.

In the situation that Anthony talked about in the last session, you know, as soon as regional management became aware, the matter was resolved fairly quickly. So please avail yourself of all the opportunities you have to raise questions and communicate during the examination, and we will do our part as well.

So that's our statement on risk-focused forward-looking supervision. I'll turn it over to Tom.

MR. LYONS: Thanks, Doreen. I wanted to talk to you a little bit about the rate restrictions rule, as well as the appraisal rule. So in February 2019, the FDIC published an Advance Notice of Proposed Rulemaking on the brokered deposit and interest rate restriction regulations. So the comment period ended in May,

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and we've received about 130 comments, about 59 of which were focused on the rate restriction aspect. They particularly highlighted the concerns that folks were having with the National Rate Calculation.

So on September 4th, the FDIC published a Notice of Proposed Rulemaking seeking comments on the proposed revisions to the regulations relating to interest rate restrictions that apply only to those institutions which are less than well capitalized.

So a little background on that is Section 29 of the Federal Deposit Insurance Act restricts the institutions that are less than well capitalized from paying rates that are -- significantly exceed those that are -- in their normal market area. And so the FDIC had adopted rules to implement these restrictions in 1992, as well as revised them in 2009.

So from '92 to 2009, these rate

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restrictions were tied to the Treasury rates for various different tenors and products. So that worked well for a while, because they were closely correlated in how they behaved with deposit rates. But as we got closer to 2009, that correlation really kind of fell apart as the Treasury rates really fell very, very low.

So in 2009, we revised the rules. So we made them so there's an average from all branches, all banks for various products, the interest rates that were available for certain tenors. So also for savings and checking and money market deposits, and that worked for a while.

But soon we started to see some issues crop up with that as well, because the -- what we're gathering for those, for the averages was posted rates, and those weren't the same as what was really being offered in a lot of places. Also, there was a lot of innovation with different deposit products which didn't fit into

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the tenor buckets that we had had out there. That was another problem.

The large institutions with a large branch network tended to have a significant influence on what the rates would be in the averages there, and there's new business models out there where institutions that do a lot, gather a lot of deposits through online weren't getting -- weren't very represented within the rates.

So under the new proposed rule, the FDIC amended the methodology for calculating the national rate and the rate cap for those deposits. The National Rate would be weighted by the average of rates paid by all insured depository institutions on a given product, where the weights would equal the institution's market share of total domestic products or deposits.

Now the National Rate would be set at -- excuse me, the National Rate Cap -- would be set at the 95th percentile of the rates paid

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by the insured depository institutions, weighted by each institution's share of domestic products or the proposed National Rate plus 75 basis points. So it would be an either/or. So it would be the higher of either of those.

The thinking on this was that it would allow institutions to compete, while not necessarily being at the top of the market, all right. So but for products where there was a convergence of the rates around the same place, we kept that option in for going 75 basis points above the average, because we felt that the 75 basis points was still not significantly exceeding.

The ANPR also discusses several alternatives, that commenters had suggested through the ANPRs. So we have several of those in the NPR as well to get comments on, including using the higher of the two previous caps, you know, the Treasuries or the average, simple average, and there was another one that we had

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received was using an average of top ratepayers, and there's a couple of others that we mentioned within the NPR.

So the proposed rule would also greatly simplify the current local rate cap calculation in the process by allowing less than well capitalized institutions to offer up to 90 percent of the highest rate within their local area for those deposits that they're gathering locally. So we felt that that was a significant simplification of the process that we currently have now.

So the comment period ends on November 4th. To date we've only received four comments, but that's not unusual since we usually get a lot of comments in as we get closer to the end of the comment period.

So I'm going to go right into the appraisal aspect, and so for the real estate appraisal rulemaking, back in December of 2018 the agencies issued a Notice of Proposed

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Rulemaking to raise the threshold for residential real estate appraisals. We've received -- the comment period closed in February. We received over 600 comments on that.

And after considering the comments, we prepared a final rule with the other agencies. We define a residential real estate appraisal transaction as being secured by a one- to four-family residential property. It increases the threshold for requiring a residential, an appraisal from \$250 to \$400,000. It requires, you know, for those that are less than 400, it would still require an evaluation to be performed on those transactions.

It also incorporated the self-effectuating exemption from section 103 of the Economic Growth, Regulatory Relief and Consumer Protection Act. I have to say that slowly. And that, it sets the rural appraisal exemption, where if you're having trouble getting a rural, an appraisal in a rural area, there would

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be documentation of the aspects to that.

So what we did there, the final rule will require lenders to obtain an evaluation, you know, instead if they can't get an appraisal. It also adds a conforming amendment from section 1473(e) of the Dodd-Frank Act, which requires lenders to subject appraisals for federally-related transactions to appropriate review for the USPAP compliance.

So our Board had approved this on August 20th in 2019, and it was just published in the Federal Register two days ago, October 8th. So the final rule's going to be effective -- it's effective now with two exceptions. So the appraisal review provision and the exemption for rural appraisals, those will be effective on January 1st of 2020, because those are new processes. So that's my spiel on two rules.

MEMBER SHETTLESWORTH: Can I ask a question back on the interest rate piece? It's kind of the same question, just in two different

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parts. The very first thing is like where the National Rate would be weighted, would be the weighted average of rates offered on a given product by all reporting institutions. Is that just FDIC-insured institutions, or does that include credit unions?

MR. LYONS: That includes -- that's FDIC-insured institutions.

MEMBER SHETTLESWORTH: Well, that's what I'm trying to clarify and this, and this highlight says under the proposed rule, the FDIC would amend the methodology for calculating the National Rate for specific products. The National Rate would be weighted, "would be the weighted average of rates offered on a given deposit product by all reporting institutions." So my question is does reporting institutions mean just FDIC-insured?

MR. LYONS: I believe it does. I'll go back and check in there, because we have allowed the use when we were talking about from

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a local perspective.

MEMBER SHETTLESWORTH: Okay.

MR. LYONS: You know, institutions do have the option to incorporate the --

MEMBER SHETTLESWORTH: Okay, good.

MR. LYONS: Currently right now, we are not collecting the information for credit unions.

MEMBER SHETTLESWORTH: Okay. That's how I took that, so then -- so that's my first -- my problem with this FIL. However, then you kind of give us some flexibility with that 90 percent of a local rate. So that clearly, I'm hoping allows for credit union competition, because that's where -- that's where our competition is for rates period. So, right. Thank you.

MEMBER LEAVITT: During exam procedures, will you be limiting the analysis in the exam to the new calculation of the National Rate Cap, and not conducting local market

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studies? That would only be in the event that the institution becomes less than well capitalized and has to demonstrate that they're living within the 90 percent rule I'm assuming?

MR. LYONS: Right. So when, you know, depending on what the final rule would look like, and assuming that this would be the final rule. The examiners could only for those institutions that fall below the, below well capitalized and for those institutions that elect to use a local rate cap, use the local for their locally set deposits, our examiners would be looking to see to make sure okay, how did you -- how did you determine what your highest is? What kind of procedures did you have there?

MEMBER LEAVITT: For those of us that are well capitalized, which is probably everyone in the room, will there be a critique based on the National Rate in the exam or part of examination, irregardless of the biopsy of the local conditions and the 90 percent rule?

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MS. EBERLEY: So Tom the answer to that's no, and I think we had some confusion and we've conducted training on that. I mentioned that we trained on our new exam procedures. Over the course of this year, we've trained all of our commissioned examiners. They've all had in-person training here in Washington.

One of the other things that we reviewed with them is the National Rate Caps, where they apply, where they don't. But the confusion existed around we did ask examiners to take a look at the contingency liquidity funding planning for institutions that were heavy users of deposit products that would be subject to the National Rate Cap. So that was really institutions that were either -- basically using listserv deposits.

MEMBER LEAVITT: I see.

MS. EBERLEY: As interest rates started to rise, we did see a number of institutions that were heavy users become

impacted very quickly in a very surprising way to them, and so we had asked our examiners to do that. That instruction was carried out in a little bit different way than we intended, and so we've redirected that, and so it will only be a discussion item if you're a heavy user.

MEMBER LEAVITT: Okay.

MS. EBERLEY: And we have reminded everybody that the local rate determination always exists, and it exists today. Local rates, we are finding across the board, are much higher than the rate caps. So if institutions come to us for local rate determinations, we grant them.

MEMBER LEAVITT: That's very helpful.
Thank you.

MS. EBERLEY: Okay, Ben.

MR. BOSCO: My name is Ben Bosco. I'll be going over the community bank leverage ratio. As you may recall, back in February of 2019, the federal banking agencies published a Notice of Proposed Rulemaking to implement

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section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act, and we proposed to establish a community bank leverage ratio for qualifying community banking organizations as a simple alternative methodology to measure capital adequacy.

In response to the proposal, the agencies received approximately 50 public comment letters and 500 form letters.

The agencies carefully considered these comments and in response made several modifications to the final rule, including adoption of Tier 1 capital and therefore, the existing leverage ratio, into the community bank leverage ratio framework; removal of the qualifying criteria for mortgage servicing assets and deferred tax assets arising from temporary differences; removal of the PCA proxy levels; and allowing a banking organization that elects to use the community bank leverage ratio framework, if you're considered well capitalized during the

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two-quarter grace period, if its leverage ratio is nine percent, is nine percent or less and greater than eight percent.

Under the final rule, a qualifying community banking organization that opts into the community bank leverage ratio framework is only required to calculate and report a leverage ratio to measure its capital adequacy, and therefore is not required to calculate and report its risk-based capital ratios.

A qualifying community banking organization must meet the following qualifying criteria: a Tier 1 leverage ratio greater than nine percent; less than \$10 billion in average -- in total consolidated assets; off-balance sheet exposures of 25 percent or less of total consolidated assets; trading assets plus trading liabilities of five percent or less of total consolidated assets; and not be an advanced approaches bank.

Qualifying community banking

organizations that elect to use the community bank leverage ratio framework and have maintained a leverage ratio of greater than nine percent are considered to have satisfied the risk-based and leverage capital requirements in the agencies' generally applicable capital rules.

Additionally, such insured depository institutions are considered to have met the well capitalized ratio requirements for purposes of the prompt corrective action framework. I'd also like to emphasize that the community bank leverage ratio framework is an optional framework, which serves the purpose of reducing burden for banks that meet qualifying criteria. A bank can opt out of the community bank leverage ratio framework at any time without restriction by reporting its risk-based ratios in the Call Report.

So for example, if a bank is on the community bank leverage ratio framework and an event happens in its community that would cause

it to go out of compliance with the framework for an extended period of time, then the bank can go back to the risk-based framework by reporting those ratios in its Call Report.

The bank can then opt back into the community bank leverage ratio framework again through its Call Report at a point in time that makes sense for the institution, assuming that it meets all of the qualifying criteria. So again, it's a completely optional framework the banks can use or not use, based upon their own facts and circumstances.

Now if an electing banking organization fails to satisfy one or more of the qualifying criteria but maintains a leverage ratio greater than eight percent, that banking organization would have a grace period of up to two quarters during which it could continue to use the community bank leverage ratio framework and be deemed to meet the well capitalized ratio requirements.

An electing banking organization is only required to report the risk-based ratios if the banking organization is unable to restore compliance with all the qualifying criteria during the two-quarter grace period, has a leverage ratio of eight percent or less, or ceases to satisfy the qualifying criteria due to the consummation of a merger transaction.

So take, for example, a bank that elects to use the community bank leverage ratio framework on its March 31st Call Report, and of course it would meet all the criteria at that time, and then in its June 30 Call Report the bank reports off-balance sheet exposures of 30 percent or more of total consolidated assets.

The bank would have to come back into compliance with the 25 percent requirement by its December 31st Call Report. If it cannot, then the bank would have to report its risk-based ratios on its December 31st Call Report. As mentioned before, the bank must maintain a

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leverage ratio greater than eight percent during this grace period.

Based on reported data as of March 31st, 2019, there were 5,221 insured depository institutions with less than \$10 billion in total consolidated assets. The agencies estimated that approximately 85 percent of such insured depository institutions would qualify to use the community bank leverage ratio framework under the nine percent calibration and the other qualifying criteria.

The agencies believe that the final rule provides a simple framework that simultaneously meets safety and soundness goals, and responds to the concerns conveyed on the proposal. That concludes my presentation.

MEMBER SHETTLESWORTH: Can I ask a question on that? It's more involved to our specific story. At the beginning of this year, we would have told you that we would have gone for this community bank leverage ratio all day

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long. We've experienced a good positive event in the last say four to five months, where we've had a lot of excess deposits come our way.

So for September 30, our actual Tier 1 leverage ratio is going to be below nine percent for the first time in I don't know how long. So that's okay, I mean and if these are temporary deposits and if they go away, our capital ratio Tier 1 may increase.

But I'm just curious, once a bank tries to report the community bank leverage ratio and let's say they fall out of compliance, they have to report risk-based capital ratios, how regularly could I go back if I qualify?

Is it a quarter by quarter, I mean Call Report by Call Report decision, or is there a period where I have to stay out of reporting the community bank leverage ratio for a period of a year or anything?

MR. BOSCO: If so you opt in and out through your Call Report, and if at -- you're at

the time to prepare your Call Report you meet all of the qualifying criteria, you can opt back into it. So there's not a restriction on --

MEMBER SHETTLESWORTH: You could go back and forth?

MR. BOSCO: You can go back and forth, yes.

MEMBER SHETTLESWORTH: Okay, thank you.

MS. EBERLEY: Before we move to Shannon, I want to step back, because I shorthanded my answer to your question, Tom, a little bit too much and missed a key point. So the key point in our training was that we had talked about on the concentrations page, looking for deposit concentrations in addition to asset concentrations.

That was a key factor in failures during the crisis. So we wanted to highlight that. We used a term, "potentially volatile deposits," and that was the issue. So

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potentially volatile deposits, we meant rate-sensitive, and rate sensitive was being considered to be above the National Rate Cap, not paying attention to what was in local markets.

So that's the clarification we made around the local markets, but I wanted to make sure I didn't leave you with the impression that listserv would be compared to the local market because it cannot be. Listserv is a national deposit, so any deposit that is not local has to be compared against the rate cap itself, not the local -- not eligible for the local determination.

MEMBER LEAVITT: So even for well capitalized institutions, that review that might identify potentially volatile deposits or high concentrations thereof, would still be called out.

MS. EBERLEY: No, it actually won't.

MEMBER LEAVITT: Oh, it won't be?

MS. EBERLEY: So yeah. We changed

that, and because that had -- it really just created -- it wasn't the information that we were looking for, and we weren't trying to call out rates that were above the national rate. So if you have a concentration in a specific type of deposit like uninsured over 100 percent of your capital or large deposits, that would be the same thing, what are some of the others that we -- if you're using --

MR. LYONS: Specific programs that are really designed to go right at a certain type of market, that would be a little bit out of the ordinary. We've adjusted our instructions accordingly. They're out in our publicly available manual, so we can get you the concentrations instructions.

MS. EBERLEY: So we've eliminated that as a concentration heading. It wasn't intended to be a concentration heading or descriptor but it was being used that way. So that's the change we made on the concentrations

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page, so you won't see that in your report again.

Okay, Shannon.

MS. BEATTIE: Hi. So I'm going to talk a little bit about FASB's statement on allowances for credit losses, and as Doreen mentioned, the FASB has issued an exposure draft over the summer that proposes to extend the effective date for the implementation of the allowances for credit losses standard, which introduced the CECL methodology.

So currently as the standard is written, institutions would begin adopting the CECL standard in 2020, with then staggered implementation depending on the institution's characteristics in 2021 and 2022. Now the exposure draft would extend the effective dates for entities that are either non-public business entities or smaller reporting companies. So those public filers for the SEC that are not smaller public, smaller reporting companies would continue to start implementation in 2020. So

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there are still some public filing institutions that are set to implement early next year. If the exposure draft is final, then at least to the extent of the credit losses standard, many of our institutions that are community banks will have until 2023 to implement the standard.

I learned today that the FASB does have on their agenda for next week to discuss the comments they received on this exposure draft. So we're hopeful soon to hear what the final determination there is. Now one of the reasons the FASB used for explaining the extension of the effective dates, and this impacted not only the allowance for credit losses standard but also two other standards impacting leases and hedging, was to allow more time for those entities that are not public filers, to learn from the public filers' implementation and give them more time to implement new accounting standards.

So our messaging has been that it's not a time to put pencils down on CECL, that we're

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encouraging institutions to still work towards implementation, and in that regard the regulators have done the same thing as well. We've continued to work with the other banking agencies, the NCUA and also with input from the CSBS to draft an interagency policy statement on allowances for credit losses.

That will eventually supersede the current policy statements you may be familiar with. So we have a 2006 policy statement on allowances for loan and lease losses, and a 2001 policy statement on allowances for loan and lease losses that addresses methodologies and documentation. As institutions adopt CECL, those policy statements would no longer become, be relevant and the new interagency policy statement on allowance for credit losses would be applicable.

That policy statement was approved by our Board in August of this year, and once all the other agencies have reached agreement on the

policy statement it will be issued in the Federal Register notice.

That policy statement does go on to cover many of the same concepts that are covered in our existing policy statements today, including how the accounting standards would be implemented by institutions, what are the expectations of boards and management as far as responsibilities, and then also what you can expect from our examiners as part of reviewing allowances for credit loss. Thank you.

MEMBER PITKIN: Can I ask a question? So what I'm finding and a few other banks I'm speaking with, is we've been doing this now for quite some time, and we've actually done some testing. What it basically does is it reduces our required allowance by about 60 percent. So being an ex-FDIC examiner, I am just wondering how that is going to happen when the examiners come into the bank with the reserve that was required at a certain amount now is only required

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at 60 percent less, because sometimes FASB has been a little bit different than sort of government accounting. Any thoughts on how that's going to be?

MS. BEATTIE: I can speak to our training program for examiners. So we realized that the CECL methodology is very different in a shift from how allowances are currently calculated under the incurred loss methodology. So we have been training our examiners since the adoption or since FASB issued the CECL standard, to make them aware of some of those differences, including the fact that under the incurred loss methodology, different methods may be used.

In particular, I think what you're speaking to, is allowances are lifetime allowances, but the standard itself restricts the analysis to the maturity period. So you can't assume renewals necessarily. So that, for instance, could be one area where a segment of a portfolio would have lower allowances if prior

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the allowances they had the loss immersions period that extended out beyond the contractual term. So to that extent, examiners are aware of differences between the current incurred loss methodology and the CECL methodology. On the flip side, for those portfolios that may have smaller allowances going forward, there is still the documentation standards that examiners would be looking to. So what assumptions are being used in the methodology, how are those documented and supported because certainly, as you're seeing from an examiner's standpoint, to see allowances go down may warrant some questions or raise some questions from examiners.

MEMBER PITKIN: Thank you.

MS. EBERLEY: And we've heard similar comments from other institutions.

MEMBER MALEY: Just one comment. I think you're going to find it's going to be a little bit difficult for de novo banks to come up with the loss history. I mean, you know, we have

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no charge-offs and who are our peers? You know, if you go by asset size, that's one determination. But that doesn't necessarily mean it reflects our portfolio and our ag portfolio especially.

So I think that's going to be an issue, how do we come up with, you know, what data do we really use for that?

MS. BEATTIE: Sure, and in that regard, we're realizing I think some of our messaging all along and within the standard itself is the importance of data, and where do we get the data and what's the relevant data to use. To some extent, the additional time will allow folks to gather more of the relevant data needed to implement the CECL methodology. There are also discussions where some entities may be looking at using proxy data to fill data gaps, or looking to their peers, which may be a remedy until an entity has its own data. Now we aren't suggesting or requiring institutions to go

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outside and use third parties, but we have heard that some are using third parties to help fill some of those data gaps.

MEMBER EPSTEIN: I've got a quick question. You mentioned that it would be ill-advised to put the pencil down, I think, is the way you put it. So like some others at the table, we have invested a lot of time and considerable resources in preparing for adoption. We're fortunate in that we will not now have to adopt for another three years. We were prepared to run parallel calculations, and we ran a really rough sort of mock draft. But we spoke with our auditor, and they have not had an opportunity to examine any of their clients who have yet transitioned over to the CECL standard, and didn't feel like they could really provide us a whole lot of relevant feedback if we were to share our parallel calculations.

And so we had a meeting of our CECL preparedness committee and basically documented

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our intent to put our efforts on hold, to remain aware of any opportunities for education, whether those be seminars or just attending events such as this, and being attentive listeners as to what's going on.

But to spend any more time, I know Cathy mentioned how much time her bank has invested, it just seemed unnecessary at this point. We've very deliberately documented our intent to sort of put our preparation on hold. We feel like we were at a point where we could have met the early adoption requirement, if necessary. Is that appropriate or do you think we have opened ourselves up to criticism? We won't necessarily put the pencil in the drawer and lock it but might, you know, slide it to the side and say let's help a customer today. Any thoughts on that?

MS. BEATTIE: So what I'm hearing though is that you said you were also looking for opportunities for education and learning more

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about the CECL implementation that might inform your process.

MEMBER EPSTEIN: Correct. As others begin to progress towards their own adoption and of course the early adopters will be using the CECL standard for their provision here in short order, and we're anxious for feedback from our auditor and just peers that may have had some early feedback from examiners and so forth.

So it's not as if we are going to pretend that we won't have to implement or forget the time that we have spent. So we want to monitor developments in this area, but to run the parallel observations, you know, again I mentioned earlier we're a 30-person, a 30-employee bank. We all have direct customer contact, and for me to be -- and my chief credit officer to busy ourselves running these mock calculations three years in advance of preparation doesn't seem like time well spent on our part. But if that's not going to be

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favorably received from, you know, the regulatory community, then we will certainly do it.

MS. BEATTIE: Well certainly. So I think to the extent you've indicated, that you would be looking towards other adopters in 2020 and learning from their adoption, and that is partly what was intended by FASB to increase the or lengthen the effective dates, that would be appropriate. It sounds like you may have some modifications to your implementation plan to incorporate some of those activities. Then the other item I would point to, just like you would with an incurred loss methodology today, is that even internally you should be looking at that parallel run in either validating the methods you've used or otherwise back testing to see does it even make sense from your standpoint. That would be a normal activity we would expect of management today. But as far as your question, as far as would you be subjecting yourself to criticisms, if you're making changes to your

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implementation plan for CECL and have documented why you're doing that to observe what's going on in the marketplace, to observe peers, that's --

MEMBER EPSTEIN: And frankly just to reallocate our time and resources to something that's more pressing.

MS. BEATTIE: Sure, sure. No, I think as long as you're thoughtful and not completely ignoring CECL, that's going to still need to be implemented.

MEMBER EPSTEIN: Right, right. We have had some conversations with others who are hoping that the delay will be indefinite through their own retirement or what have you --

(Laughter.)

MEMBER EPSTEIN: And while I can understand that, I'm thinking we're trying to be a little more pragmatic.

MS. BEATTIE: And our viewpoint, from the regulatory standpoint, is we expect institutions to make a good faith effort on

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implementing, and we realize it's going to be an iterative process too, that right out of the gate, whether it's data gaps or other limitations, that there's going to be improvement over time, and that's what we're looking for.

MEMBER EPSTEIN: Well, we appreciate that approach.

MEMBER DeBIASI: You know, sorry about that. Yeah. Along the same lines, you know, the current methodology we've been under, if you look back to its inception 30, 40 years ago, it's evolved quite a bit today from where it was at its beginning. I know with CECL I would look probably for more of the same.

It's not going to be -- Day 1 I doubt it's going to be the same as it's going to be -- as it evolves, and I would certainly hope to your mention, to your point, that there would be some patience, that as long as the banks are making a good faith effort, certainly that that's going to be looked upon, you know, favorably,

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because it will be a difficult transition especially for smaller banks that lack the resources of larger institutions. But I won't -- I won't bore everyone today. Any regulator that's ever been in my office has gotten a pretty lengthy spiel from me, not necessarily on CECL but the whole concept of the allowance methodology and contra-asset accounts in general for small institutions. To me, I'd love to have that debate some day with anyone but I know I'm going to lose the argument. But I'm still, still going to continue to have that debate. But regarding CECL, again my point is it's going to be evolving. I mean the current methodology has evolved, you know, quite a bit over the years and this one I'm sure will, too. So again, I think we'll have to take it. I guess my hope is that Day 1, we're not expected to be at the, you know, the highest end of the learning curve and there will be some, some patience with the whole process. Thank you.

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MEMBER SHETTLESWORTH: At this point, one quick question. I know the answer to this question for me, but I need to ask it anyway because there's an interesting problem popping with CECL, is who wins, the regulators or the accountants? So the model was built for CECL for the accountants, and so I understand that we're going to run on that going forward when this is implemented -- maybe it won't be. But I could obviously see an environment where it's getting bad quickly. The FDIC is doing an examination and a recommendation or a directive to increase your provisions on the spot. I could -- it's not too far of a stretch to see that that might be in direct conflict of the bank's currently validated CECL model. And so under that situation, if you're a publicly traded corporation, you're probably going to do what the regulators say. At the same point, that could be in direct conflict with the accountants. I'm just curious if that has ever come up, that idea.

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MS. BEATTIE: So in that regard, we collect the CECL information, the CECL allowance is in the Call Reports, and the Call Reports do need to be within, in accordance with, GAAP. That is how we're training our examiners as well, that we are following the GAAP standard. So there is the understanding that if you talk about the forecasting period used for CECL, if that forecasting period is reaching the height of a recession and expecting a turnaround for recovery, and that it's documented as part of your forecast and included in your methods appropriately, our examiners are informed that that is what GAAP permits and allows.

MEMBER SHETTLESWORTH: Does it mean though, that I'll -- would that work? I'm just thinking in an environment where it's really intense and really heavy, like it just might be well, our model says this but like everyone in the room, the banker and the examiner didn't realize we've got to put more provisions in there

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and just, you know. It's just an interesting problem.

MS. BEATTIE: And understandable, because that's one the biggest shifts with this methodology change. Thank you.

MS. EBERLEY: Thank you. So Tom, Ben and Shannon thank you very much, and I'll introduce our next panel as they're getting situated. We have Martin Henning, our deputy director who oversees our operational risk activities, and with him Lisa Arquette, associate director for Bank Secrecy Act and anti-money laundering and cyberfraud, and William Henley, who oversees IT supervision.

So Lisa is going to talk about banks doing business with customers that are hemp farmers or somehow related to the hemp industry. William's going to talk about examiner observations and recommendations relating to IT strategies. I'll turn it over to Lisa.

MS. ARQUETTE: Thank you Doreen, and

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good afternoon. It's nice to be here. This is our second presentation on hemp production. I hope you can hear me okay. I'm guessing this is the slide deck. No, it is not. Yes, it is. All right. So this seems to be a very interesting topic. Can I get closer to the mic? Of course I can. Okay. Is this a little bit better for you? Good?

MEMBER PITKIN: Yes.

MS. ARQUETTE: Okay, great. Okay. So hemp. What's important is that in December of 2018, the 2018 Agricultural Improvement Act was signed into law. The 2018 farm bill removed hemp as a Schedule 1 controlled substance under the Controlled Substance Act. The 2018 farm bill also directed the U.S. Department of Agriculture, in consultation with the U.S. Attorney General, to regulate hemp production.

The 2018 farm bill states that hemp production will be subject to a plan established by the USDA, states or tribal governments. The

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USDA has issued a legal opinion and other guidance interpreting the farm bill and has announced that it expects to issue regulations by year-end 2019.

According to the USDA, hemp may be produced by properly licensed hemp producers in accordance with the farm bill only after the USDA issues regulations and guidance for commercial production of hemp in the U.S. The USDA intends to have regulations in effect to accommodate the 2020 planting season.

These regulations are expected to provide details on sampling procedures, testing requirements, licensing, compliance and other procedures that production facilities and oversight authorities will need to follow. So I'm going to back us up for just a moment to the 2014 farm bill, and the reason that I'm doing that, actually I'm going to cover the definitions. The 2014 farm bill and the 2018 farm bill have very similar definitions for hemp.

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The 2014 farm bill addressed industrial hemp in the context of research, academic research and research for growing hemp. It was referred to as industrial hemp, but it had a specific chemical composition of not more than .03 percent THC. It's got a longer term, but we call it THC and that's the psychoactive ingredient in the cannabis plant.

Fast forward to 2018, and the definition is very similar. It's only referred to as hemp, but the chemical composition is the same, .03 percent THC or less and what happened in 2018 is that it was eliminated as a controlled substance. So it moved from research and agricultural development to removing it as a controlled substance because it had a very minimal amount of the psychoactive ingredient.

However, growers are still subject to the 2014 ag bill because the USDA has not yet issued regulations that would govern the production of hemp as a legal substance. So

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those institutions of higher education and those that were growing hemp for agricultural purposes and research are subject to the 2014 ag bill.

The USDA of course will issue regulations. They plan to issue them by year end, so this will establish a regulatory infrastructure for growing hemp. States, tribal governments and territories can also submit plans to the USDA so that they can establish policies and procedures for growing hemp. Until that happens, the USDA regulations will govern the growing of hemp in the United States.

So they haven't issued regulations yet. So the 2014 ag bill is in effect for those growers of hemp that were growing it for research purposes. But what's important to note is that hemp that meets a certain chemical composition is not a controlled substance. It's a little, it's a little confusing to navigate, but it's an important distinction.

I'm going to fast forward to what

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probably matters to bankers in the room, onboarding and maintaining hemp customers. The FDIC doesn't direct banks on the types of customers that it can offer banking services to. We don't discourage, we don't prohibit any type of customer, so long as the bank manages those customers and the risk associated with the customers and complies with regulations. In this case, Bank Secrecy Act and Anti-Money Laundering regulations are pertinent. Customer due diligence requirements are pertinent, and suspicious activity monitoring for all customer types.

Let me back up for just a moment. This is where we get the most frequent types of questions. What are we supposed to do if we have hemp customers, and I will get to a slide in just a couple of minutes, where I'm going to provide maybe a couple of suggestions about what banks have been doing for their hemp customers.

But it's probably helpful to see the

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landscape, the state landscape. Most states, for one reason or another, have legalized the production of hemp. They haven't established the plans and the policies and procedures for measuring the production of hemp yet. They're waiting for USDA to issue their rules, but you can see that most states for one reason or another have legalized hemp.

Cannabis, on the other hand, which looks and feels and smells just like hemp because it comes from the same plant, still remains a controlled substance. So marijuana is a controlled substance; hemp is not a controlled substance. Very hard to distinguish between the two. Not your job, but it's very hard to distinguish the difference between hemp and marijuana.

If you have a customer that provides services, marijuana-related services or grows marijuana, the bank is still required to file currency transaction reports and suspicious

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activity reports consistent with the guidance that FinCEN, the Financial Crimes Enforcement Network, issued February 14th of 2014.

If you have a customer that is a hemp producer and you have no reason to believe that it's anything other than hemp that meets the definition in the ag bill, you would not be required to file a suspicious activity report solely because the customer was producing hemp. Banks generally rely on the representations made by their customers, and unless you have reason to believe that it was anything other than hemp, you would not be required solely based on the production of hemp, to file a SAR on that customer.

So questions that we get circulate around CBD oil, CBD included in various products, hemp, CBD that's derived from hemp and it's a little bit difficult to navigate because the products look the same. Again, not the job of the banks to make a differentiation, but it's

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tough to know without states having established a licensing and maybe a measuring program to determine the difference between hemp and marijuana, whether your customer has gone from a hemp producer to something a little bit different.

We understand that even from growing season to growing season, that the chemical composition of this part of the cannabis plant can change. So based on representations from the customer and at some point soon, the infrastructure, the regulatory infrastructure that is established with USDA, states, tribal governments and territory governments, you'll be in a much better position to at least validate that customers who are growing hemp in fact are following state licensing procedures, growing procedures, measuring procedures, that they're regulated.

But there is one other stakeholder. So there's the USDA, there is the states and the

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territories and tribal governments, and there's also the FDA. You've probably seen, like many of us have, that CBD is contained in food products, cosmetics and there are many representations about the benefit of CBD oil and the medical benefit.

The FDA would have to approve anything that has CBD oil in it, including CBD oil that was derived from hemp. So there are many stakeholders. There's an awful lot for banks to navigate. But I think that the signs are clear that there's going to be a regulatory structure in place soon.

With that said, the FDIC is considering issuing a statement regarding the current regulatory environment, and provide resources like maybe links to the USDA, links to FDA. They have a series of FAQs, both those agencies, that help a banker to navigate some important aspects of the difference between the two types of cannabis plant.

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But I think what we're finding through our experience in talking with examiners and bankers alike is that most banks that are providing services to either marijuana-related businesses or hemp-related businesses are essentially doing their customer due diligence, understanding the nature and purpose of the accounts, asking the questions of the customer, "What are you doing to make sure that your production is consistent with the farm bill?"

We haven't seen any problems arise related to that. But if you have any questions for me, I'd be happy to field a couple of questions. Either now or after William is done talking.

MR. HENLEY: Thank you Lisa, and so good afternoon. I've prepared a couple of slides that I hope are responsive to the recommendations that we've received. We've selected some examples to share that we think will resonate with you and your boards of directors, and based

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on some of the comments that I heard this morning, that really point to the importance of managing IT and cybersecurity risk.

So we introduced the information technology risk examination program, what we call InTREx on June 30th of 2016, and we're nearing a complete examination cycle using these examination procedures. So I'll share a couple of insights. From what we have learned, from what we've derived and also share what we're telling examiners and what they are finding.

So in the second slide, from the management module, examiners are instructed to evaluate the adequacy of short- and long-term IT strategic planning and the budgeting process. Just a brief aside, when we -- when I use the term "information technology" or "IT," this term includes cybersecurity, as cybersecurity is woven throughout the examination procedures.

But returning to that evaluation about strategic planning, examiners will evaluate the

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involvement of appropriate parties. The FDIC recognizes the important roles that senior management and the Board of Directors play in governing the institution's programs to protect one of its most valuable assets, and that's confidential customer data.

Cybersecurity is not just a server room obligation we like to say, but a concern of the entire enterprise. It involves all employees from the tellers to the Chairman of the Board. So it is important to implement a culture throughout the organization that prioritizes strong management of cybersecurity risk.

Another aspect examiners will evaluate is the alignment of business and technology objectives. Examiners will review the Board's strategic objectives and evaluate how well they're implemented and integrated into daily operations.

Turning to the third slide, some of the findings of examiners that have led to IT

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downgrades are listed here, or the URSIT rating downgrades, and these findings have been taken from our analysis of examination comments and examination work papers since the implementation of the InTREx exam program.

Listed on this slide are some of the more frequently mentioned comments. The observation regarding the lack of Board oversight, the first observation. Examiners are looking for Board involvement consistent with the complexity of the institution. The third bullet listed, increased consideration of business continuity, and other terms that you may be familiar with or you may hear that are synonymous with business continuity are resilience or operational resilience. The financial institution should manage their operations to both avoid disruptions and to recover services as quickly as possible when necessary.

Then the fourth bullet, the use of standard assessments to guide increasing

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cybersecurity maturity. With that bullet, we recently made a public statement as a member of the FFIEC and on the fourth slide, and I believe in your packages, the press release is included with respect to standardized cybersecurity assessments.

Now there are several assessments that are included in this press release. We contributed to the FFIEC's cybersecurity assessment tool, which is commonly known as the CAT. But there are others like the National Institute for Standards and Technology or the NIST cybersecurity framework, The Financial Services Sector Coordinating Council or the FSSCC sector profile, and we're agnostic with respect to these profiles or these standardized assessments. But we feel that there's value in standardized assessments because with the repeatable process, over time performance metrics and performance indicators are measurable and meaningful.

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Also on this slide, you'll notice the box, business continuity update coming. So this is a coming attraction with respect to the FFIEC IT Examination Handbook, and shortly we will release the Business Continuity Management booklet, which is the update to the currently titled, Business Continuity Planning booklet.

But what I've covered are just some areas that examiners are considering, and some of the findings as well as a few coming attractions. But I'll stop there as I want to answer any questions that you might have regarding the FDIC's IT supervision program, and hear some of the challenges you're facing managing IT cybersecurity risk, or any questions you may have for Lisa.

MEMBER LEAVITT: Just a question about a little bit of the chicken or the egg. The NIST cybersecurity framework came first, and the cybersecurity assessment tool was built largely modeling or mirroring, to some degree,

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some of the best principles within that NIST framework. Is that, is that accurate?

MR. HENLEY: Yes, that's accurate. So, you know, the NIST cybersecurity framework was a tool that could cut across all of the critical infrastructure sectors. So the 16 critical infrastructure sectors.

MEMBER LEAVITT: Right.

MR. HENLEY: The cybersecurity assessment tool was -- we took those principles and wanted to, and we wanted to make it a useful tool, we hoped, for community bankers. So it's more focused on the financial services sector.

MEMBER LEAVITT: And do we have data based on examination due diligence within the institutions over the last, I think it was summer of 2015, when the FFIEC and then the FDIC, springboarding from that, was giving briefings at the regional level. I attended one, and we brought that back to create an Information Security Council at Northfield Savings Bank and

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adopted the CAT as a working tool to try to establish our first baseline and then come back to it with repetitive efforts, to see how we might be progressing along the maturity spectrum.

So the question is, given that we've shared that with auditors and regulators, is that a finding that is coming up repetitively in exams, and do you have data to suggest how many community banks are now applying themselves to that rigor?

MR. HENLEY: Yes. We don't have data that specifically notes how many have adopted the tool, because, as I mentioned, we encourage financial institutions to manage that with a process. But we think the CAT is a good tool. But from our data, we have noticed that there has been an improvement in that area, because there are many community banks that are either using the tool or have improved their position by adopting a repeatable process.

MEMBER LEAVITT: And part of my

questioning has to do with an anticipation on the briefings that were conducted when the CAT was being promulgated around the country. I think the Kansas City region might have been leading the tour at that time. But there was some expectation this might become written into examination requirements, and that we would simply have to all submit to that at some point. It seems like there's - it's not been adrift, but there's ambiguity relative to that tool versus some other framework that an institution might adopt.

MR. HENLEY: Yes, so --

MS. EBERLEY: Sorry. We try to be super clear at the very beginning, and it was Martin's predecessor as deputy director of Operational Risk that led the tour, Mark Moylan. But that we're not, we're not directing institutions to use any tool.

MEMBER LEAVITT: That was clear to us then.

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MS. EBERLEY: Any specific tool. But you need to --

(Simultaneous speaking.)

MEMBER LEAVITT: We were talking among ourselves.

MS. EBERLEY: Right. You need to do a risk assessment. Every institution needs to do a risk assessment and understand their level of maturity and have a repeatable process for doing that.

MEMBER LEAVITT: That has been consistent.

MS. EBERLEY: But the choice of tool is up to you.

MEMBER LEAVITT: That has been consistent.

MS. EBERLEY: So we haven't --

MEMBER LEAVITT: I didn't mean to imply that the language of the presentation suggested this would become a requirement. It was, it was built into the expectation of the

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bankers that coming to a briefing like this and beginning down that road, it may mature into something that was more of a standard requirement. And so that clearly hasn't evolved and it's not evolving, and that's the simple clarification I'm seeking today.

MR. HENNING: I think, you know, maybe another thing to say with regard to this thought is there is anecdotal evidence that companies are doing what your company is, which is picking up something that's useful for them and using it through time.

And I'd be curious to hear any feedback of any of you about, to the extent you're doing something similar either with the CAT or another tool, if it's helpful in allocating resources.

I think that to the extent that you're using something that other institutions are using, then, you know, your IT types might have a language for comparing more across, and NIST

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seems to be at the base of a lot of these tools. So that provides some level of comparison.

But even within your own institution, just having something that's the same from year to year should allow you to focus resources a little bit better, you know, obviously consistent with strategic plans, generally. I'm wondering if that's, you know, if that's panning out the way we hoped.

MEMBER DONNELLY: I'd like to comment on that. We use the CAT tool, but my question, my first question is how often would you expect us to reassess that, and, I mean, is that like at 18? With the way technology moves, you may have to reassess it tomorrow. But in general, it takes a lot of time to sit and assess that and put it into your strategic plan and your IT strategic plan, which needs to mold into the rest of it. So are we looking at an 18-month window, a two-year window? I know it should be relative to the environment, but if you follow. And we've

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tried to move up the scale and move up with, improve our position and it gets exponentially more expensive the farther up you move. So there comes a point in time that a community bank, especially a small one, has to make decision. Is it -- how do you document that we're done or we're going to go broke trying to keep up? So I mean at what piece or point -- I guess my question is where, how often do you assess, and then when do we raise the white flag, not necessarily to give up, but to say this is as far as we can go because it's not logical?

MR. HENNING: Yeah, great questions. You know, to the first one, in terms of how often, I think you hit the nail on the head at the end there, risk-based is something that comes quickly to mind. If you're changing your core, that's -- you know, right after that's done, that's a good time to go through again and say. Or, I know William said, of course, we were reading about integrations with, you know, for

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example fintechs. If that's something that's happening and material, that would be a good time to go back through and reassess. On the other side of the spectrum, if things aren't changing materially, you know, I would expect a longer time frame would be acceptable.

You've got -- you may have another way to allocate resources and focus whatever you're spending is audits as well. So you've got an assessment your management team may be using, but you may have IT audits that are happening, and that might allow you to focus resources in a year where, you know, not a lot's changing but they're finding weaknesses here or there. That might be the better way -- better tool to use to focus resources at that point in time. We don't have instructions to our examiners on any specific time frame, but they would be evaluating along those lines.

MEMBER LEAVITT: There is an expectation, though, that at least institutions

of our size, a billion and up, will have a distinct information technology strategic plan that is complementary to the bank's strategic plan and in alignment on cyber-related content. So that in the past, or in our current plan, that was developed in 2016 for implementation January 1, 2017, we spoke to information technology as an embedded core principle, and information security and all the things that are talked about in the CAT process. But what we did not do is build a parallel strategic plan for IT, and in the more recent examination that was called out for remedy.

Not remedy in the sense of we had done anything inappropriate, but that at our size, at our complexity going forward, it would be important to have a discrete information technology strategic plan, and so we have that in our program of work. As we next year build our subsequent strategic plan, we'll be putting resources into building a parallel IT strategic

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plan. That's too many words, I'm sorry, but that's, that's been a redirect as a result of interface with the FDIC.

MR. HENNING: Which maybe a question back to you. Has that been helpful? Do you think it was --

MEMBER LEAVITT: We agree with that direction. Would we have advanced it as quickly? I'm not sure. We certainly would have gotten to it, but we've actually added personnel just for purposes of being more robust in this function, in project management, in strategic planning, in compliance, and we're going to be stronger because of it. It's more expensive, but it's the right thing to do.

MR. HENNING: That would -- you know, one of the reasons William and I talked about choosing, you know, this specific examination procedure is just to kind of show you guys what examiners are told. These are the instructions to examiners, here's the things to look at. So

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it's pretty broad, and I would say -- I mean just listening to your example there's not, as you can see here, an explicit requirement that you have a separate IT strategic plan.

I know some of -- some of you are, you know. There's 10 people, 12 people in the institution. I mean the value of that may not be significant, especially if things aren't changing very much.

But, you know, the more IT is integral to the operations of the bank, especially at points in time when you're heading in a new direction, where IT's supporting that, maybe even calling out in the general strategic plan the IT support components and what's changing and how resources will have to be allocated to make that safe and sound, is a reasonable thing to be doing.

MEMBER DONNELLY: A general comment. I could have sworn I've been told to have one of those separate strategic plans out of Kansas City, and you're saying not. That really

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surprises me --

(Simultaneous speaking.)

MEMBER DONNELLY: I'm pretty sure I was told that. Maybe I interpreted it wrong, but hmm. I'm a whole lot smaller.

MEMBER LEAVITT: I'm not saying that. You might be hearing that we're not being instructed to have a separate IT strategic plan, but we were left with the impression that we needed to get to work on ours.

MR. HENNING: Yeah. I would say again, these are the procedures, and they're not -- they're not prescriptive. And I'd say if you feel like you're being pushed, you know, as with any examination recommendation, if it doesn't make sense and seems inconsistent with the complexity or the things that are changing, that's an opportunity to talk to the examiner about that.

MEMBER DONNELLY: Frankly, it makes total sense, and it works and it's very helpful.

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Also, you can also forecast out expense on it, but it's darned expensive to do that. I mean we've been doing it for three or four years now since we started -- three years in developing a strategic plan on the IT side that goes along with the corporate plan. You can forecast out farther the cost, but man it can scare you to death. At least it scares me to death as to how much it could actually cost. I think for a much bigger bank it'd be even scarier, I think.

MR. HENNING: I think another, another thought that comes up in relation to sort of the infinite amount of resources you get to apply to either IT or within IT cybersecurity, something I've seen institutions do and William, you might comment on this too. But, you know, if it's, for example, audit results that they're using to drive some of the allocation, they're not -- they're not getting the risk down to zero and remediating every last thing that could be remediated.

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They're looking at the significance of the highs, allocating resources to deal with those and accepting the risk, or maybe even, you know, documenting at least the mitigating controls that they've got in place for things that are going to remain and going to show up every time they come through. But, you know, we're conscious about that as a management team. We're transparent with our board. We all know what we're doing there.

MEMBER LEAVITT: Well, I've told our team Slides 2 and 3 of this particular presentation become our road map as of this afternoon so --

MR. HENNING: I hope that means they're good.

(Laughter.)

MR. DAVIS: Great. So it is 2:25 now. Let's take a short break and reconvene at 2:40. Thank you.

(Whereupon, the above-entitled matter

went off the record at 2:25 p.m. and resumed at 2:39 p.m.)

MR. DAVIS: Okay. I think we can go ahead and move to the next item on the agenda. We now have Betty Rudolph, National Director for Minority and Community Development Banking, and Sandra Kerr, Senior Program Specialist from the Division of Risk Management Supervision. They're going to discuss tools and resources related to Opportunity Zones.

MS. RUDOLPH: Thanks, Chad. By way of background for those who are new on the committee, our presentation today came out of the meeting at the end of July, and I had given an update on the Minority and Community Development Banking Program there, and Opportunity Zones, and kind of did a show of hands on who's engaged with Opportunity Zones, what do you know, what are you interested in, and that in addition to other outreach we've done, we've found that a lot of community banks have questions, wanted a little

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bit more information, how can we engage, what are the barriers.

With respect to your question, Keith, this morning, I think and maybe somebody else brought it up about CRA. That did come up at that meeting as well as their automatic CRA consideration. The answer is no, but I'll talk a little bit more as we go through the presentation.

MEMBER EPSTEIN: But I think, if I may, that it would probably be inappropriate to have all lending to qualified Opportunity Zone funds receive automatic CRA eligibility. That's why I was narrowing my, our suggestion to those that are, would be domiciled in the bank that's issuing the loan in their assessment area. That just -- that's something that we were hoping would be considered.

MS. RUDOLPH: Okay, okay. Thank you for that clarification. So what we promised to do, at that meeting at the end of July, was to

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come back with you today and talk about some tools and resources that we might be able to provide. Opportunity Zones are a tax incentive. They're not a federal program. It's not the kind of space where there's a lot of federal influence except perhaps for CRA.

A lot takes place at the local level, but we're hoping that two tools and resources we put together for you that we can get some feedback on today. So the first one is in your packet and it's a paper. It's actually a draft excerpt from a paper we're putting together on just what are Opportunity Zones, what's the tax incentive, how does it all work? But more importantly how can banks play in that space?

So we're not going to go through the paper in detail today, but I just wanted to bring up a couple of things regarding CRA. There's a section on that on pages -- this is not page-numbered, but a couple of pages in, "Investments in qualified Opportunity Funds do

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not automatically receive CRA consideration."

We have had a lot of discussion with our CRA experts and lawyers. A lot will qualify, and what I would encourage people to do as they engage in projects in Opportunity Zones is to reach out to our regional office, and get some consultation from our senior review examiners on whether or not something will qualify early on in the process.

The reason it's not a blanket is a lot of these projects are the ones that are sort of low-hanging fruit that are coming online now, are things that probably were in the works before Opportunity Zones were actually enacted. And so some of those may or may not qualify under the community development test, CRA.

The other thing I would just briefly talk about is the role of banks. So we've come up with a couple of pages of examples of benefits for banks. Mainly they boil down to banks serving as facilitators in putting together

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projects; advocating for development in these zones; and bringing projects that you know about online, working with local governments and local leaders, putting together a pipeline of projects.

The second real theme there is financing, that you all can be involved in financing for projects. And finally, serving as brokers, your knowledge of the community. In many cases, many of you work with low-income housing tax credits, new markets tax credits, and those are things that have skills that are really important to putting together projects in Opportunity Zones. So we'd welcome, if you have any, comments on the paper. The idea behind this is we would put it on our website just as a resource for bankers, for Opportunity Funds, for investors, just showing the role that banks do play.

And then the second tool we have is an interactive website with resources, and I think in your packet we attached a couple of pages,

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state by state, as far as resources that are already out there on state and local incentives, tax credits, other kinds of things they're providing, information on Opportunity Funds and what they're doing in your state.

Sandra's going to walk you through a website where that information is contained. This is a concept, and we just wanted to get your feedback on that today. So we'll do a quick demo of the -- what I'll call a clearinghouse and see what you think. I'll turn it over to Sandra.

MS. KERR: Good afternoon, everyone. Before I get started, I want to introduce a few people to you. Behind the computer is a gentleman by the name of Dustin Allison. He and Sasha Rybak from our Division of Research created the interactive map that you're going to see right in just a few minutes.

Since we're in D.C., I decided to bring my legal counsel, Susan Sturc, behind me is a tax attorney for the FDIC, and just did so much

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work on our paper, to make sure to review the tax incentives and make sure that everything that we have is correct in there.

The web page, and gentlemen I'm sorry, but you may have to turn around, because the majority of this is really on the screen. The web page you see before you was created by Diane Bellis, who is RMS's webmaster. This has truly been an inter-divisional project. Not only the MDI program, RMS, Capital Markets, Graphics, Research and a whole series of other divisions have worked on this project, and I'd be remiss if I didn't say Legal as well.

I've been told that some of you have to leave a little bit early. I'm going to, if you will indulge me, read from my script, because when I go off script I tend to talk a little bit more. So I'm going to try to keep this succinct, and everyone can make their planes home. I'm going to provide you an overview of the work that we've done to date, and in the remainder of time

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we really want your feedback.

We want to make it very clear that everything you're seeing today is in development. Nothing has gone live. So if you see something that you don't like, we can change it. If you -- if we're missing something, we can add it in. This is all really for you, and we want to make sure that it's effective for you.

Betty provided the overview for the Opportunity Zone tax incentive very briefly. I'm not going to go into a lot of details about that, but rather how we envision providing the information to you. As you can see, the first map up here is about Opportunity Zones themselves.

The blue-shaded areas are Opportunity Zones. The yellow areas are tribal lands, and it's very difficult to see on this screen, but where the two come together it turns green, and that provides Opportunity Zones that are located on tribal lands. You can see many of the dots

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are very, very small. It's because Opportunity Zones are done by census tracts. So some of the areas may actually be one or two census tracts only, and that's why they're very small on this screen.

There are more than 8,700 census tracts across the country that are qualified as Opportunity Zones, and of these almost 300 of these Zones are in Native American lands. Going back to the screen here, I'm going to skip around just a little bit on this page. As you can see, we're focusing predominantly on community banks, MDIs and CDFI banks in Opportunity Zones.

Because the Opportunity Fund must keep at least 90 percent of its funding in projects at all times over a ten-year period, we believe that banks with a pipeline of projects will become very valuable over time. As many of you have already probably seen in the news, right now we're getting a whole lot of information on very high profile projects being done in Opportunity

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Zones.

Those are projects that likely would have been done whether they were in an Opportunity Zone or not. But since 90 percent of these funds have to be in projects over ten years, that's where we see they're going to have to continue to look for new projects, and we think that that's where investment opportunities are going to be over the next ten years, as they continue to look for more and more projects to invest.

To give you an idea of how many community banks, CDFI banks, and MDIs are headquartered in Opportunity Zones, we've created several maps. The map that you're seeing right there shows you for community banks. We have almost 900 community banks headquartered in a zone, and 36 of these are headquartered in a zone within a tribal area.

In addition to that, we have another 4,000 community bank branches located in a zone.

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We've created similar maps. We're not going to go over those today, but we want to go back to the beginning of the web page, to show you that we're going to have a variety of sources for you. We're going to have direct links to all the IRS forms that are relevant to Opportunity Zones and Funds so you can directly download them.

In the future, we plan to include successful bank participation examples. We're hoping if you participate, please let Betty or I know. We'd love to include some examples on this web page.

One of the things I think is very valuable, Dustin if you would go to the state resources. Perfect. The map that you see right up there, eventually when you click on the state, you will go directly to your state's government site for Opportunity Zones. Because this is in development, we aren't quite there yet, but we do have all the states listed. So Dustin, go ahead and go to Vermont. As you can see, Vermont has

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a lot of information and resources about Opportunity Zones in the state. I think it's really very well worth your time for each of you to go to your states and to look at what additional information they have, because there may be some additional requirements. There may also be some additional incentives.

We have found that a couple of states are already considering a state tax incentive to go with the Opportunity Zone tax incentive, much like the way that many states do new markets tax credits. So it's well worth going to each one of your states to look, and we've provided every state, every territory on this web page.

When putting the project together, the first thing we did was of course research the tax incentive, how it works, and the rules for the investment. This is what's included in the paper. But we also thought it was so very important to know which banks are located in Opportunity Zones, and even more importantly the

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Opportunity Funds. Where are they, what are they looking to invest in, and where are they looking to invest? So we tried to bring all of this together for you.

That's why we created the application called the Financial Institutions in Opportunity Zones. Ta-da. It will load in just a moment. Okay. What's coming up here, the blue areas of course are Opportunity Zones, the yellow areas in this case are Opportunity Zones on tribal lands. But what you're seeing on this map is every community bank, every CDFI bank, and every MDI headquarters located in an Opportunity Zone.

I don't know if you're familiar with 508 compliance, but at the FDIC we take this very seriously. In brief, we must make sure that all of our materials are available to everyone, including persons with disabilities. For example, you're seeing all of these symbols up here, and Dustin just clicked on one of the stars. If you are blind, you don't use a mouse. So you

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can't click on one of the symbols. Instead, that person uses a tab on a keyboard. So, as you can tell, there are a lot of symbols up there for someone to try to tab through. So we are working -- and one of the things we did was put accessibility up at the top, and, as Dustin will kind of tab through, what we did was put a list of every bank on the computer. This is something that can be tabbed through. A computer can read out loud and go through the tabs and read what each tab says. The FDIC has a new compliance officer, Brooke Aiken. We're working with her to ensure that the map is absolutely compliant before we go live. We've got some things to work out, but I'm very hopeful. I think that this, we'll be able to work this out so everyone can see this information.

By now I'm sure you're probably curious. What are all those stars and dots and squares, oh my, on the screen. Dustin, yeah. If you'll look at the legend, what we have the

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community banks are the green stars, the MDIs are the red diamonds, and CDFI banks are orange squares. Now, these only denote headquarters that are located in Opportunity Zones.

When we get to the state level, you're going to start seeing dots. Those dots are all of your branches that are located in Opportunity Zones. As you can see at the top of the page, we divided the country into regions. That was just a practical matter in the fact that we've got 56, because we have states and territories with Opportunity Zones, and to put 56 tabs going across one page, nobody could understand it.

So with that, let's go to a state. Let's start with Georgia. As you see, Dustin went to the southeast region, then went to Georgia, and then Georgia zooms in on the map. Dustin, why don't you go ahead and zoom in on Thomaston, Georgia, which, by the way, is the home town of Mr. Edwards.

You'll see that while United Bank is

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not headquartered in an Opportunity Zone, the bank actually has two branches in Thomaston that are located in an Opportunity Zone, and they also have branches in Griffin and Newman, Georgia, that are in Opportunity Zones. But now I want to focus on the information that you're finding on the left-hand side of the paper.

This was some of the information that you all had in that draft paper about the individual states. So for example, in each state we're going to show you the number of census tracts designated as Opportunity Zones and those on tribal lands. We also show the number of community banks, MDI banks, CDFI banks in the state, as well as those headquartered and the number of branches, and we also give you all of the FDIC-supervised banks that are located in Opportunity Zones as well.

But I think one of the most valuable pieces of information provided is about the Opportunity Funds. While the IRS has not yet

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released a list of registered funds, and quite honestly they very well might not do that, we do have groups that are compiling voluntary lists of these funds, that include information on the size of the fund, geographic focus, investment focus and contact information.

There are presently at least 235 self-reported Opportunity Funds across the country. These funds collectively hold between \$62 and \$72 billion in the funds. Now please keep in mind that these funds are just growing at a phenomenal rate. The reason for this is to get the maximum tax incentive, these funds must be created by December 2019.

That doesn't mean funds won't be created after that date, but simply to get the maximum tax advantage for the investors, that's the final date. So what we've done is in each one of the states, we have got links to two of the groups that are collecting the information on the funds, so you can search that and find

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information for your states.

Because these are moving so rapidly, we are committed to, probably at the first quarter of next year when things settle down, the growth slows a little bit, we will go back and readjust all of the numbers that you're seeing now to more accurately reflect that time. Now with that said, let's go back to Georgia for a minute. In Georgia specifically, there are 12 Opportunity Funds that include Georgia in their investment focus.

These funds range from \$20 million to \$250 million each. The 12 funds together have over a billion dollars. The investment focus -- and keep in mind this is very consistent across the country -- the investment focus usually includes affordable housing, commercial real estate, mixed-use development, small business development, student and workforce housing. In Georgia, we've got one unusual fund that is specifically focused on hydroponic

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systems relating to agriculture. So we've got one fund for that.

I do not want to mislead you. When I say 12 funds with an investment focus in Georgia, what we did is we've got 71 funds that self-identified as national focus, willing to go across the country. We had several funds that said they had a focus of the Midwest, Southeast, so we did not put those states in. But what we do have are 12 funds that very specifically put Georgia in their investment area. I believe we've got about two funds that have an investment only in Georgia. The others include Georgia, plus they include other states. So please note that not all \$1 billion is targeted to Georgia, but it does include Georgia, so it could go to other states as well.

Another feature that I would love to show you that is one of my favorites, is that if you go up at the top to the search, Dustin why don't you go ahead and put in First Independence

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Bank? And we've got a couple of them, so we want to go to Detroit. So you can actually search by your bank name. You don't have to just search by a zone.

What I neglected to say earlier, I'm not sure if you can see it up there on the screen, when that pops up we give you the bank name, the contact information, we tell you what type of a bank it is as well. So First Independence Bank is an MDI bank. So that shows up, it will show up if you're a community bank, if it's a community bank branch, so you know what's on the screen.

By the way, First Independence Bank is headquartered in an Opportunity Zone, and it also has a branch in an Opportunity Zone. Dustin, because of time, let's just go to one more state. Let's go ahead and go to Texas. Okay.

Falcon International Bank is located in Texas. It has a branch that's located in an Opportunity Zone, and Dustin's going to pull that up to show you how easy it is to find it,

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especially if you practice finding where it is on the map before we get here.

(Laughter.)

MS. KERR: But I do want to draw your attention to the left, to the narrative, and just say looking at this, you're going to see there's a whole lot of banks headquartered and branches in Opportunity Zones in Texas. But if you look further down, Texas also has 27 Opportunity Funds interested in investment. This is more than any other state in the country right now. We'll see how that changes as they continue to grow.

I'm getting real close to the end. I'm sure at this point you're probably saying to yourself, you know, this is great, but how do I know whether I'm in an Opportunity Zone or not. Well, we're going to show you.

For example, I know that Roxboro Savings Bank is not in an Opportunity Zone. So Dustin, if you would put in the search, put -- it will come up and as you see there's nothing blue

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around it. Therefore, you get information about the bank, but you see that it is not located in an Opportunity Zone.

MEMBER EPSTEIN: Can I ask you a question real quick --

MS. KERR: Yes, of course.

MEMBER EPSTEIN: We are surrounded by -- this is the city of Roxboro --

MS. KERR: Correct.

MEMBER EPSTEIN: -- and all the little parts of the county that surround us are part of the Opportunity Zone --

MS. KERR: If it is in blue, it's an Opportunity Zone, correct.

MEMBER EPSTEIN: And that is part of our assessment area.

MS. KERR: Exactly. Now you can also find an FDIC-insured bank that's not a community bank, MDI or CDFI bank, and let's just give an example here. Dustin, let's go to the Chairman's former employer. Let's put in Fifth Third Bank

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in Cincinnati, which is regulated by the Federal Reserve.

As you can see, information pops up and again it's not in an Opportunity Zone. So we just want to make it real clear that all FDIC-insured banks are included in this map. You can find them. Our focus is on community banks, MDI banks, and CDFI banks, and we really want to limit that to really show those that are in Opportunity Zones. But you can find almost any bank in this -- on this map.

With that said, there are a whole lot of other features that you could go to. But I have really talked enough for one day. So now I'd really like to turn it over to you, and ask you if there are any comments, suggestions, questions about what you've just seen, or about Opportunity Zones or Opportunity Funds in general.

MEMBER KELLY: Sandra, great presentation.

MS. KERR: Thank you. I got you in
in time --

(Simultaneous speaking.)

MEMBER KELLY: Very simply --

When can this be live?

MR. MILHORN: Before you go, Len's got
to go, and I just wanted to take the time to thank
him again on behalf of the Chairman of the FDIC
for participating on the committee. You've been
a great resource for us --

MEMBER WILLIAMS: It's been a
pleasure meeting you and the rest of the group.

(Applause.)

MEMBER KELLY: Yes. So, how long
before this is live?

MS. KERR: Yeah. We have got the
paper in clearance. We want to make sure
everything's 100 percent correct. This map is
actually complete, except we do have to wait for
508 compliance. We have to make sure that
everyone will be able to view it. To give you

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an exact date, I'm not sure. Can I say soon, and we could just go there?

MS. RUDOLPH: We're shooting, we're shooting for either end of the year or early next year.

MEMBER KELLY: Okay. Very impressed.

MEMBER EPSTEIN: I find this extremely helpful. Reading over the materials before the meeting, I had this all marked up and made copies for co-workers, and this is really informative. It's a great complement because it's specific to the bank aspect.

MS. KERR: Exactly.

MEMBER EPSTEIN: A nice complement to the materials that the Federal Reserve has provided and the workshop that they conducted in our area.

One question I do have, I know we're always very careful not to give any kind of tax advice to our customers, and I know the FDIC is not in that business either. But it does strike

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me that at least for larger projects or customers that have larger capital gains, and perhaps the administrative costs to having a qualified Opportunity Zone Fund will come down in time. But this may be a viable alternative to a 1031 tax exchange, and I think if that information could somehow be accessible, either bank giving to customer or customer obtaining from FDIC, from Federal Reserve, from someone. There are some differences, but I could see where this would perhaps create an even greater tax advantage in that you have to put money into the fund quickly, but the fund doesn't necessarily then have to reinvest the money as quickly.

Whereas with the 1031 exchange, if they identify the property quickly, you have to purchase the property quickly, and sometimes there's some real stress to get that done.

MS. KERR: Isn't that like 30 days or there's a very short window on that?

MEMBER EPSTEIN: Short identification

period of time, and then I believe it's six months to actually consummate the sale of the like property and the restrictions in terms of like property. Here, you wouldn't have that. So if I wanted to sell commercial property and reinvest in residential or even into a business, and not so much a piece of real estate, this would give that flexibility and I think that would appeal to investors. If that information can somehow be compiled and then disseminated in a way that we don't overstep our, well --

MS. KERR: Right. What you received -- the paper that you received was actually the executive summary to our larger paper. And many of the issues that you're addressing right now, because of Susan, we have addressed many of the investment areas and the timing of all of this. So I think that you'll have more information. You may want even more than that, and we'll be happy to look into that.

MEMBER EPSTEIN: Thank you.

(Off mic comment.)

MS. KERR: Yes, absolutely.

MEMBER EDWARDS: Sandra.

MS. KERR: Yes, sir?

MEMBER EDWARDS: First of all, I echo the thanks. This is fantastic, and I appreciate the work that you and your teammates have done here on this program. But I ask that, if possible, if you could please email us or have somebody email us from the FDIC when the site does go live, I'd love to get our team working on this.

MS. KERR: Oh, we absolutely will.

MEMBER EDWARDS: I was just curious though. So obviously the CRA credit is important to all of us here. I just want to be sure I understood. You're recommending that we contact the regional office related to specific, either direct investment or facilitating of loans to some of the Opportunity Funds. That would be the most appropriate thing to do or --

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MS. RUDOLPH: I think the question is if you're getting ready to participate in a big project, and you think that qualifies for CRA credit, call your regional office and they will provide some advice.

MEMBER EDWARDS: Okay.

MS. RUDOLPH: While we're on that topic, I just wanted to plug it, it is in the paper too, that you know, in a lot of cases banks that engage with minority depository institutions get that CRA credit even when it's not in the assessment area. I talked about that to this committee last October. We have a resource guide on that. So that's also another consideration.

MEMBER EDWARDS: Okay, great. Thank you.

MS. KERR: Anything else? Thank you.

MR. DAVIS: Great, thank you, both. We are winding down on time. So our last segment, I'll turn it over to our chief of staff Brandon, to update on supervision modernization,

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and then also to give some closing comments.

MR. MILHORN: Thank you. So I will take five minutes and I will get you to the door. In January, the Chairman set up the Supervision Modernization Subcommittee of the CBAC. The Subcommittee was designed to bring together bankers, technologists, former examiners to give us some thoughts and put together some recommendations on what our examinations might look like in the next, in the next little bit, but also the next ten years and how technology would change that.

The committee has met three times this year. They are pulling together their report and recommendations, that ultimately will be presented to the CBAC to consider and make any proposed edits or recommendations for changes, and ultimately to submit the report, if you all see fit. Ultimately, the subcommittee is a function of the full committee.

That's the process we're in right now.

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We look to have that report and recommendations completed for the committee's recommendation sometime in -- early in the next year. So keep that in the back of your head as something that's coming your way, and as soon as it's available and we can circulate it to the committee members, we'll make sure that happens.

That's my Supervision Modernization Subcommittee update. If there are any questions, feel free. We don't have to do it now. We can, we can do it offline.

MR. MILHORN: Lastly, thank you all again for coming today. Thank you for your service on the Subcommittee. I know the Chairman wishes she could be here, and -- instead of on the plane. But I'm sure she looks forward to being here next time. Your advice and guidance and input is crucial to the Corporation, and we certainly appreciate that. Thank you all again, and with that, the meeting is adjourned.

MR. DAVIS: Thank you.

MR. MILHORN: Catch your flights.

(Whereupon, the above-entitled matter
went off the record at 3:11 p.m.)