FEDERAL DEPOSIT INSURANCE CORPORATION

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MEETING OF THE ADVISORY COMMITTEE ON COMMUNITY BANKING

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TUESDAY,
APRIL 13, 2021

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The Board convened at 1:00 p.m. EST via Video Teleconference, Jelena McWilliams, Chairman, presiding.

PRESENT:

JELENA MCWILLIAMS, Chairman, Federal Deposit Insurance Corporation
MARTIN J. GRUENBERG, Director, Federal Deposit Insurance Corporation
ARLEAS UPTON KEA, Deputy to the Chairman for External Affairs
SHAZA ANDERSON, Member
MARK PITKIN, Member
PATTY MONGOLD, Member
JOHN WHARTON, Member
KENNTH KELLY, Member
SARAH GETZLAFF, Member
NEIL MCCURRY, Member
ANDREW WEST, Member
GILBERT NARVAEZ, JR., Member
BETSY JOHNSON, Member
STEPHEN HAYES, Member
MARGARET OLDNER, Member

BRUCE LOWRY, Member
CINDY KITNER, Member
MIKE BOCK, Member
HAROLD HORVAT, Member
TERI MESSERSCHMITT, Member

ALSO PRESENT:

SHAYNA OLESIUK, Division of Insurance and Research
KRISTIE ELMQUIST, Dallas Region
FRANK HUGHES, New York Region
BETTY RUDOLPH, Minority and Community Development Banking
SULTAN MEGHJI, Chief Innovation Officer
DOREEN EBERLEY, Division of Risk Management Supervision
RAE-ANN MILLER, Division of Risk Management Supervision
JOHN VOGEL, Division of Risk Management Supervision
CHRIS FINNEGAN, Division of Depositor and Consumer Protection
JOHN ANDERLIK, Division of Insurance and Research

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

(1:04 p.m.)

CHAIRMAN MCWILLIAMS: Good afternoon or good morning, for those of you on the West Coast. Welcome to this first meeting of 2020 of the FDIC Advisory Committee, I'm sorry, 2021, of the FDIC Advisory Committee on Community Banking. And thank you for making the time today to participate.

A lot has happened since we met last October. Certainly I hope that you and your families are doing well, and I appreciate the time you dedicated to the last meeting and, again, this meeting as well.

At the FDIC, we continue to focus on core safety and soundness principles, capital liquidity, and asset quality of our banks. We are pleased with our COVID response. In 2020 the bank regulators issued many rulemakings to ensure banks had the flexibility to support the economy in their communities.

Though we're optimistic about the

economic outlook, we will continue to monitor economic conditions and the state of the banking industry and assess what is the appropriate regulatory response as we go forward.

One of our primary focuses is to promote innovation and to create a regulatory environment that will make it easier for small banks to adopt new technologies and thrive in a rapidly changing and evolving environment.

We have just hired our first Chief Innovation Officer to lead FDITech, Sultan Meghji. You will hear from him today. And we have already highlighted for you, but we will continue to talk about the FDITech initiatives.

One of them is the rapid prototyping to replace call reports. And the second one is the proposal to create a standard setting organization to establish standards for due diligence of vendors and for the technologies they develop.

We're also looking at innovation more holistically and whether or not we need appropriate policy changes to remove barriers to innovation and how our banks utilize innovation, as well as we are focused on financial inclusion that has been frankly exacerbated by the pandemic, as well as the overall area of American competitiveness in making sure that our banking system remains the foremost banking system in the world.

Before we get started on a lot of these topics, I would like to take a minute to welcome members of the committee who are here for their very first meeting.

Mike Bock, CEO of Dairy State Bank in Rice Lake, Wisconsin. Harold Horvat, President, CEO and Chairman of Centreville Bank in West Warick, Rhode Island. Betsy Johnson, President and CEO of Solutions Bank in Forreston, Illinois. Cindy Kitner, President and CEO of Jefferson Security Bank in Shepherdstown, West Virginia. Bruce Lowry, President and CEO of Ireland Bank in Malad city, Idaho. Neil McCurry, Jr., President and CEO of Sabal Palm Bank in Sarasota, Florida.

Margaret Older, CEO of Stone Bank in Mountain View, Arkansas. Andrew West, President and CEO of Eagle Bank in Polson, Montana. And John Wharton, President and CEO of Yampa Valley Bank in Steamboat Springs, Colorado.

While I wish I could welcome you all in person, I'm pleased we are having this important meeting, albeit electronically, and I look forward to our discussion today.

So again, welcome, everybody. I will now turn the program over to Arleas Upton Kea who will serve as the moderator the today's meeting. Thank you.

MS. KEA: Thank you so much, Chairman McWilliams. Before we begin with today's agenda, let me just ask, Director Gruenberg, do you have any comments or remarks that you would like to share with the members before we start?

DIRECTOR GRUENBERG: Yes, Arleas, thank you. Let me just say a word of welcome to everybody, and thank you for taking the time today. I very much look forward to the discussion we're going to have.

I have to say, as I think back where we were a year ago, which was in the immediate aftermath of the pandemic's devastating impact on the economy, it seems to me we may have feared we would be in an even more severe situation today, a year later, than we actually are.

And it seems to be a significant measure that community banks in particular have come through this period thus far in remarkably good shape. And you all have served your communities exceptionally well. And as I said, I very much look forward to your presentations today.

And even though I think we have good reason for hopefulness looking forward, there clearly is still significant uncertainty and, I think, significant downside risk to the financial system that we need to be attentive to, most obviously in the area of commercial real estate in particular.

So I think we have a lot to talk about

today. I very much look forward to hearing what you all are seeing in your local communities and local markets. And thanks again for taking the time to participate. Arleas, thank you.

MS. KEA: Thank you, Director Gruenberg.

We're going to start this afternoon by turning to the committee members for an update about their (Audio interference.) issues related to banking conditions in their individual communities.

And then after that, we'll hear from the FDIC staff members as they will share their observations and touch upon items that likely will be relevant to the information that the committee members have shared.

Then Shayna Olesiuk, Associate Director of our National and Regional Risk Analysis from our Division of Insurance and Research is going to cover some observations about the national economy and banking trends.

We also have with us today Kristy

Elmquist, the FDIC's regional director from our Dallas region, and then Frank Hughes, the FDIC's regional director from our New York region, with us today. And they both will offer some local observations which we think will also be of interest to all of you as well.

So at this time, I'd like to start our committee member discussion with Shaza Anderson,, the chief executive officer of Truststar Bank. Ms. Anderson will be followed by the other committee members.

Ms. Anderson, you have the camera.

MS. ANDERSON: Good afternoon, thank you so much Arleas. Can you guys hear me?

MS. KEA: We can, yes.

MS. ANDERSON: Thank you. It's great to be with you all. And thank you, Madam Chairman. And I'm really pleased to be leading the conversation and looking forward to listening to everybody as well. I hope that everybody has remained safe and healthy during this time.

There is positive momentum in the

country in fighting COVID, and in our economic rebound. The greater Washington market is no exception. We live in a dynamic market with three jurisdictions, Virginia, Maryland, and DC, with each in their own state of readiness.

However, commercial office vacancies remain very high, even though recent transaction prices have been near or at record highs. Businesses continue to be productive with most remaining at work from home default. Schools are reopening, and restaurants and businesses are beginning to return to fuller levels of activity.

Our market is resilient. And having a workforce and economy anchored with the federal workforce via technology and services has helped to maintain some stability. Unemployment is steadily declining and is now around 5.7 percent.

We continue to experience strong demand for our banking services and are forecasting strong growth for the fiscal year. Through Quarter One, our bank has achieved assets of $380 million. Remember, we opened a year and a half ago.

Since last quarter, we have had deposit growth of 164 percent and loan growth of 217 percent, excluding PPP. We continue to process PPP applications, but demand for the program has slowed. We have also been fortunate not to have any charge offs during this time or past dues.

I believe I mentioned the last time we were together that we acquired a mortgage company. We completed the integration and recently announced the branding of Truststar Mortgage. We have also entered the Maryland market and received our FDIC approval just recently on March 25th. Thank you, FDIC.

We are seeing businesses and offices reopen while most people continue to work from home. The economy gets stronger every day with a confidence that things will continue to improve. I'm excited about the future and confident in the days to come.

Thank you all so much.

MR. PITKIN: So good afternoon, all. I'm Mark Pitkin, President and CEO of Sugar River Bank, located in Newport, New Hampshire. We are a state chartered mutual institution founded in 1895 with six branches spanning from the west central to the central part of the state.

Current assets total $346 million. We provide hometown banking, primarily in small town environments, and our mission is to exceed the expectation of our customers.

While the bank remains vigilant and focused on strict COVID-19 safety protocols for both customers and staff, the bank has called back all remote employees to the office. Working closely together, sharing ideas, and supporting each other on a daily basis has been, and will continue to be, a competitive advantage of the bank.

Of all states, New Hampshire has the eighth lowest COVID-19 death rate per capita in the nation. As of April 19th, every Granite Stater 16 years of age and older is eligible for the vaccine regardless of their residency.

New Hampshire ranks first in the nature with 51 percent of New Hampshire residents receiving at least one dose. The national average is 36 percent. Likewise, 22 percent of residents are fully vaccinated which is also above the national average of 20 percent.

The 2020 housing market was historic in terms of New Hampshire home sales. While much like 2019, the difference was the pandemic. However, the exploding market seemed to defy the crisis as single family residential unit sales, median price, and sales volume hit all-time highs.

Sales far outpaced new listings and, as a result, inventory has hit its lowest point in at least 16 years. The medium price for single family residential properties in the state was $335,000, a 12 percent jump from the previous high of $300,000 which came just the year before in 2019.

Overbidding on available inventory is

more common than not in this environment. With continued historically low interest rates and high demand, the bank's residential mortgage lending continues to be very strong with near record level refinance activity.

2020 mortgage loan origination volumes increased a remarkable 86 percent over the volume in 2019. However, this robust finance activity has also contributed to the significant decline in the bank's net interest margin from 3.57 percent at year end, 2019, to 3.19 percent at year end, 2020.

The bank's investments, which also increased significantly by 31.7 percent year over year from 2019, has further contributed to the compressed margin due to decreasing reinvestment yields.

Regarding small business lending, I am pleased to report Sugar River Bank's remarkable efforts in assisting local businesses that were faced with significant financial challenges due to the pandemic. We have originated $14.8

million in PPP loans to 379 small businesses saving 1,947 jobs as of March 31st, 2021.

As a community bank, no loan request was too small. Our average loan was $39,000, ranging from a high of $578,000 to as little as $256. To date, we have accepted 191 forgiveness applications representing 5.4 percent of total PPP loans.

On balance sheet liquidity range is very strong, bolstered primarily by increasing cash balances with continued strong consumer saving trends, multiple economic stimulus payments, and significant loan and investment cash flows.

Cash balances as of March 31st, 2021, have increased 86 percent since year end 2020 and an astonishing 200 percent since year end 2019. The banks total assets have likewise grown by 4.3 percent in the first quarter of 2021 and more than 12 percent since year end 2019.

Despite the substantial asset growth, Tier One leverage remains strong at 13.7 percent.

As a mutual institution, the bank is well poised to accept continued deposits from our local communities.

With that historically strong capital position, we ably stand to support future growth. However, I did receive a call from a local CEO who was concerned with continued regulatory flexibility in instances where Tier One leverage ratios have dropped below nine percent as a result of the unanticipated pandemic events.

Sugar River Bank's asset quality remains strong. We have not had any borrowers requesting pandemic related loan modifications or deferrals since September 2020. Adversely classified assets to capital, non-performing assets, and delinquencies remain low.

Our allowance for loan and losses remains more than adequate, ensuring future coverage of any latent credit losses stemming from the fallout of the pandemic.

Our challenges continue to be managing a higher than average employee turnover, addressing the ever-increasing complexities and costs of cybersecurity, and the technological expectations of consumers, and finding reasonable reinvestment opportunities for increasing cash balances.

In conclusion, I thank you for allowing me the opportunity to share what's going on at Sugar River Bank in our market area and in the state.

MS. MONGOLD: Good morning, for me it's morning. I know it's afternoon for you on the East Coast. But I'm Patty Mongold, President and CEO of Mt. McKinley Bank, a mutual bank in Fairbanks, Alaska.

In 2020 Mt. McKinley Bank saw nearly 19 percent growth in assets. We had a 34 percent growth in loans and a 21 percent growth in deposits. Our earnings out performed out budget, but that was primarily due to a robust mortgage activity. The mortgage side was the driver for the majority of our earnings. That (Audio interference.) 2021, but we do continue to see strong margin compression.

For an update on COVID-19, Alaska led the land and was the state to offer Corona virus vaccinations to anyone age 16 and older. At present, 27 percent of all eligible Alaskan's have been fully vaccinated. However, our alert level remains high for new cases.

The state remains open. We have no restrictions on business operations and no mask mandates. Most organizations, however, are still holding their meetings virtually, or at least ensuring that social distancing can be maintained, and masks are being worn, primarily. Our hospitalization rate and death rate both remain low, which are all good things.

Mt. McKinley Bank made 385 first round PPP loans for about $39 million. At year end, 297 of those loans in the total amount $32 million were still outstanding.

The SBA forgiveness process remains slow, but it has improved quite a bit over the last few weeks. We have processed another 185 second round PPP loans for about $18 million. That's through March 2021. And we have several more sitting in our pipeline.

We're closely monitoring our non-owner occupied commercial real estate loans, as we believe that this is an area of risk to the bank. But at present, our non-owner occupied commercial real estate portfolio has load delinquencies. The values are holding are holding steady and the cap rates are also holding steady. But we have adjusted our allowance for loan and lease losses to account for what we perceive to be an increased risk in that portfolio.

The Alaskan economy is still showing the effects of the pandemic. Recently reported trends indicate the unemployment for the state is up 7.1 percent when you compare February 2021 to February of 2020.

Crude oil prices, which drive much of the Alaskan economy, have gone up about 13.59 percent which does mean more money in the state coffers from taxes.

Our inventory of homes for sale has hit an all-time low, due in large part from the increased movement in the military. We've had quite an influx of new military personnel. However, our overall population for the state has experienced a net loss due to outgoing migratory patterns.

Tourism, that's an area of our economy that was hit hard by the pandemic. And at this time it remains to be seen what this season will bring. It has been compounded by a lack of cruise ships that are able to travel to Alaska, because the Canadian government has closed their borders both to cruise traffic as well as over the road travelers coming into the state.

Hopefully, we'll see an increase in tourists flying into the state from last year. And most of our business customers in the tourist industry are guardedly optimistic.

We continue to be concerned about providing a healthy, safe work environment for our employees and making sure that our customers have the tools they need to be successful, whether that be with loans, or deposits, or buying a home, whatever their needs are.

I appreciate the opportunity to speak to you today. And I appreciate the opportunity to participate on this committee. It's been a pleasure to be a part of it. Thank you very much.

MR. WHARTON: Good morning, fellow community bankers. My name is PJ Wharton. I am in Steamboat Springs, Colorado. And I'm very, very pleased and honored to join such a wonderful group.

Yampa Valley Bank was established 20 years ago, and our mission is to put the community first. And if we flash back a year ago from now, it was really quite a scary time, and I think I speak for all of us. It was quite a scary time and one in which we were desperately worried about the future.

Our ski area, Steamboat is a major ski area, so we are a resort community, very, very heavily dependent upon our ski area. And it closed one month early. We lost two very, very key months in which we have folks flying in from all over the nation, all over the world for their spring breaks.

So those last two weeks, four weeks to be total, put a great deal of stress on our community. The Yampa Valley Bank, in our efforts to lead, and following the FDIC and the Federal Reserve with PPP loans, again, as many of you, your communities and your bankers worked late, nights, weekends, holidays, et cetera.

And for a bank that, again, a year ago we were $375 million, today we're at $469 million. We were able to book 569 PPP-1 loans in four months of last year.

So again, I'm sure I'm echoing the sentiment of all of you. It was very stressful, it was chaotic, but we got it done. And again, we received calls from business owners, restaurants, hotels, resorts, small businesses, contractors, et cetera.

And frankly, that was the silver lining to a horrible COVID crisis, is that community banks shined. Our bank, Yampa Valley Bank, did as many PPP-1 loans as our four major competitors combined. And I think for all of us, as community bank leaders, this really has been our opportunity to shine compared to the mega banks that really had 1-800 number or frankly referred customers our way to find their PPP-1 loans.

So in hindsight, as horrible as COVID has been, we are very, very grateful that we did not have any hospitalizations for any employees. Of course, we have had, you know, COVID positives, we've had people quarantined, et cetera. But thankfully, we have not had any hospitalizations in our community. Of 12,500 people, we had a total of 20 deaths over the past year, most of those unfortunately in a retirement home.

Back to the bank, again, similar to you, I think 2021 has been the most difficult budgeting year we've ever established. With growth of 40 percent in the past 12 months, deposit growth of $150 million in the past 12 months, it's been incredible to try to figure out how are we going to grow, if we will grow. And frankly, we budgeted our balance sheet to shrink in 2021.

With a new administration and PPP-2, that has not occurred. And again, similar to you, we are up about seven percent year-to-date in terms of our balance sheet.

PPP-2, we are projecting to be approximately 40 percent of PPP-1. And those dollars, coincidentally, are fee income, about $1.2 million, ironically. And it was not planned, but we funded our allowance for loan and lease losses approximately that exact same amount.

Our allowance today stands at 2.2 percent. We have not had any asset quality deterioration. We expected it probably the fourth quarter or first quarter of this year.

Thus far, that has not happened. And again, similar to your customers, our customers have been hoarding cash, been sitting on massive amounts of liquidity.

We are hopeful, through a very busy summer for our resort community, with campers and other folks coming here to hike, ski, and fish, that some of that liquidity will be released.

One other area that has been a concern, and an unintended consequence of the tremendous liquidity that's been provided by the stimulus and the PPP, has been the pressure on our leverage ratio.

We're very grateful and glad that we have participated as a community bank in the leverage ratio for community banks. But I would really feel that this is an important item to be considered in 2021, as it has gone from 8 percent to 8.5 percent as a minimum. That pressure has not changed and, in fact, has increased in 2021 due to the tremendous liquidity of the system.

Overall, we are very, very excited as

we look forward. We are very grateful for the partnership with the FDIC. Madam Chairman, I've very pleased to announce, ironically, we just had our exit meeting with the FDIC for safety and soundness on Friday. We'll have our Board meeting this Thursday.

And I'm very honored and pleased to present that the team was excellent. We view them as a partner, and we had wonderful conversations, a few debates, but overall the outcome was excellent for all parties involved.

Overall, in conclusion, we're very, very pleased to be part of the FDIC, be part of a great community of bankers like you, and I look forward to meeting each of you in person hopefully in July. Thank you.

MS. KEA: Thank you, PJ. Let me just check in. Ken Kelly is scheduled to be next. Ken, could you speak and let's see if we're ---

MR. KELLY: Yes. Can you hear me?

MS. KEA: We have you. Thank you. Please go ahead.

MR. KELLY: Okay, great. I apologize for the technical difficulties. Let me say good afternoon and good morning to others, Madam Chair, and Director Gruenberg. Thank you all so much for convening this group in the way that you have. It has been a pleasure of mine to serve on this.

And for those of you who I haven't met, I'm Kenneth Kelly. I serve as Chairman and CEO of First Independence Bank which is located in Detroit. We have been in business now for 51 years. We were one of the positive outcomes of the 1967 riots in Detroit, serving predominately in the commercial market, residential market, and we also do commercial leasing.

Many of the sentiments my colleagues have expressed are true for us in the Detroit market. We've been faced with challenges relative to now, challenges relative to residential mortgages, even though that is going up at this point in time. But I would say the outlook is still very positive and very bright for us.

So I won't get into the specifics of a lot of the hard numbers. But what I will tell you at a very high level is we are seeing many of the same trends that have been discussed by my peers. More specifically though, what is very positive, and Madam Chair, I want to give you some credit for this, is we're seeing a lot of interest in minority banking across this country.

We had the announcement with Wells Fargo last March, before the pandemic, of an investment of $50 million coming into the MBI space. There's an announcement that actually just took place a few hours ago, the second phase of that investment is taking place into the MBI community. So we're very grateful to Wells.

But there have been many other banks, such as Bank of America and many others, who have seen the need for MBIs having a foothold in reaching some of the capillary neighborhoods where many of the MBIs serve. So we're very grateful for that level of interest and the level of supporting collaboration.

I will tell you we are seeing the need for more collaboration to move forward in respect to the PPP. What we have seen in our polling has shown across not only the National Bankers Association but many of the other organizations like the Urban League, and the NAACP, that we did not see the fulfillment of the intention of PPP reaching into, really, the deepness of some of those communities.

There are many reasons for that. I won't get into the details on this call. But what I do know is the efforts that we are seeing inside of the FDIC to look at standing up a fund to create support creates more capacity for collaboration and partnerships to reach to these deeply needed areas in the community.

So I just want to say again thank you to Madam Chair for the efforts and pushing in that regard and helping corporates come to the area of ensuring that there is equality and inclusion in our financial system.

At a higher level, I would say again, I'll ask all of our colleagues to look at the data. I think anyone with a high level of education would understand that this data really demonstrates some of the disparities that we're seeing in home ownership across the country, and network across the country, et cetera.

And I believe that we, as bankers, can take on a leadership role and make a big difference across the spectrum in tackling some of these long challenging statistics that show these disparities.

So again, I bring you greetings from Detroit from First Independence Bank. And, Madam Chair, and Director Gruenberg, thank you so much for allowing us to have this opportunity to participate in this program.

MS. GETZLAFF: I am Sarah Getzlaff. I am the CEO Security First Bank of North Dakota which is a $200 million bank in Central North Dakota. (Audio interference.) members that (Audio interference.) during that week peaked at a 16 percent daily positivity rate.

And we've dropped really quickly after that, and we've been under five percent since Christmas. And so our state has been very fortunate in that we have basically been really open since Christmas. And mask mandates ended in the middle of January.

Schools have been open since last fall. In-person, some of them are even starting to unmask. We've had group sports, and bars, and restaurants, and everything has fairly reopened. And things really feel like they're getting back to normal here which hopefully will continue to spread across the country very soon.

Overall, our loan portfolio is really clean, our ag Plus portfolio is doing really well. Government stimulus has definitely helped a lot. There's a really good crop in 2020. We haven't had a lot of moisture, rain or snow this winter so we're all a little worried about the 2021 crop.

Other areas of our economy, our

residential real estate portfolio is super strong. Our market is really strong, housing-wise. On the commercial side, we're really concerned about the commercial market, because we have heard that a lot of businesses are going to keep people working from home long term. But like I said, overall our economy has been pretty well throughout COVID.

As North Dakotans we get teased a lot about where we live, and the weather here and, oh, there's not much to do. But I heard person after person say it's been really good, a good time to be living in this area.

And we have a lot of good help. Department of Commerce stepped up and did a lot of grants for shut-ins and owners of restaurants, because the hospitality industry as a whole. PPP loans are, of course, were a huge help. Last year we originated 160 of them, and since our economy has been slow we didn't think we'd do as many in the second round but we've actually done twice as many. We had 295 in this second round.

And of those 295, only a quarter of them are second jobs. Most of them have been first jobs to farmers which came about after the SBA changed the scheduling calculation which made more farmers eligible to apply.

We also have the only state-owned bank in North Dakota, called the Bank of North Dakota. And they have sort of partnered with local community banks to offer additional one percent loans and other low interest rate loans to struggling businesses.

They had required them to apply, and it does have to be paid back, for the most part. But that was really helpful. And through our local legislature, they also offered grants where they would help banks retroactively make interest payments that were made during COVID.

And those interest payments went directly to our bank and to other banks in the state. And then we were able to refund money to our customers and help them, you know, with their cash flow which was huge. And so Bank of North

Dakota has been a huge help to us.

And I think that kind of starts with interest in people owning a state-owned bank. I've had a lot of questions on it lately. And, you know, the effort has worked really well. They're really kind of the banker's bank in North Dakota. And I think that a banker's bank can do everything that Bank of North Dakota can do, for the most part.

And they don't compete against us, they don't do any direct lending. They basically buy loans participations for us, and then they help us with loan programs that in other states community development entities offer or state agencies like the Department of Commerce might offer.

And so I think that it's always great to be looking for a new way of doing things. Sometimes I think people are looking for this special charter or this special type of bank that will solve things that are a problem and they both sort of need that. It's actually already being met or able to be met somewhere else.

And so I just hope that, you know, some of these big companies where there's somebody looking for an ROC charter or maybe they're lobbying for a state-owned bank, really has, you know, the correct motive at heart and isn't going to put some sort of unnecessary risk on a banking system when the FDIC's charters are all tried and true charters.

And I think that COVID proved more than ever that our banking system works really well and community banks especially are really strong. And they meet all the needs of our main street, and our communities, and there's really no need to mess with a good thing, in my opinion.

Thank you for the time, and I really appreciate the opportunity.

MR. MCCURRY: Hello, this is Neil McCurry with Sabal Palm Bank in Sarasota, Florida. It's an honor and privilege to meet everybody with the FDIC as well as my co-members of the Advisory Committee.

It's been a whirlwind of a year for us in the state of Florida at Sabal Palm Bank. And I'm pleased, as we sit here today, to tell you that, in our area, that most trends have improved significantly.

Our unemployment rate has now dropped to where it was in pre-COVID levels, which is a very low rate. The housing market continues to be strong. Small businesses have by and large rebounded.

Now, certain industries, hotels and restaurants, certainly had struggles through most of 2020. But with an uptick in tourism and the growing housing market, those sectors have done well, as the other businesses have.

So as we sit here in the second quarter of 2021, you know, we feel very good about our outlook. That being said, a little over a year ago it was completely different.

We, as a bank, started having COVID management meetings in February of last year. And as the days and weeks went on, we became progressively concerned. Florida was severely hit during the last Great Recession. And I was concerned that we were looking at another scenario, Great Recession Number Two, and what the impact would be on our community, our businesses, individuals, and the banking sector.

And we made a decision early on that we were going to be a leader when it had to do with COVID and supporting businesses. We didn't know what that meant, but we knew that we had to be out front.

And I want to applaud the Atlanta FDIC Regional Office. I reached to them in early March of last year and asked them if we could have permission to proactively work with all of the bank's loan customers to modify their loans to interest only for all of 2020 with the idea that the businesses and the individuals would be better suited having some additional liquidity as we went into this crisis. They were outstanding to work with, and that program was very well received by our customers and the community as a whole.

We then, shortly thereafter, transitioned when we learned about the PPP program. We didn't know if it was a good program, or a bad program, but it was the only program. And we said we were all in on it.

We completely restructured how the bank worked, working evenings, weekends, both ultimately to serve the customer. We were working through the middle of the night when there were the technology problems.

And I feel extremely pleased that at this point we've provided over 1,500 PPP loans to businesses, small businesses in our local community, about $125 million worth of those loans. So we feel very proud that we've been able to accomplish that for the community.

And we have also done, I think, a good job of reaching out to people in the community that were not only frustrated with other organizations that didn't have the same commitment to the program, but also to businesses and individuals that were under banks, weren't sure about how to work through the program. We put on informational webinars throughout the year on how to apply for a PPP loan, how to do it specifically with Sabal Palm Bank.

I want to mention to Mr. Kelly that we have, in Sarasota, an outstanding NAACP chapter with great leadership. And our bank and many other businesses worked hand-in-hand with them. And I think the whole community has made sure that everybody has been looked after during this crisis.

We've noticed that, in the second round of PPP loans, our average loan size is approximately 30 percent of what it was the first time. Our first round it was loans that were approximately $90,000 average. And they're $25,000, $30,000, with loans down, in some cases, under $$1,000.

And we actually continue to stay busy with the PPP loans. Because we are continuing to let our community know that they are available, and we're here to help. And every day, we continue to have an active amount of new customers that need assistance.

A surprising amount are first draw PPP loans, people that, for whatever reasons, did not receive a PPP loan in 2020. And we've helped them through that process as well and were glad and pleased to be able to help them as well.

Certainly looking forward, we have some real concerns, cybersecurity, you know, the most recent events with Microsoft.

We're learning, and I think that we need to continue to collaborate as an industry and regulators on how to protect the industry, the customers' information, everything involved that I think the challenge that every one of us has and need to partner together on and, again, continue to find ways to be innovative, to support the banking industry of the future.

And with that said, I'll turn it back over. And thank you very much.

MR. WEST: Hi, I'm Andrew West from

Eagle Bank in Polson, Montana. Eagle Bank is one of very few tribally-owned banks in the United States. We are $96 million in assets. We've been open for about 15 years. Our original mandate was to bank the underbanked and unbanked. And we continue to take that mission to heart today. We also operate as a state-chartered community bank, and we bank tribal members and non-tribal members as well.

One of the interesting things that has happened during the COVID pandemic with Montana is that now that people have the opportunity to work remotely, there has been a tremendous influx of people moving from other places to Montana, particularly western Montana where I live and work.

The results of this have been a housing shortage and increased mortgage amounts which has been very good for our bank. It's helped offset the reduced (Audio interference.) the margin (Audio interference.) compression resulting from the low interest rate environment.

But we are seeing cash offers on homes that are, I mean, essentially it becomes an option for people to buy homes. And this is driving the prices up to the point where Native Montanans can't really even afford a house anymore which is a little bit of an issue.

These houses are being bought sight unseen, and construction costs are very high as well. When (Audio interference.) commercial activity it's moderate. And we, like everyone else, did a lot of PPP loans which I think helps not only our customers, but it also helps the banks. Because when the customers can continue to operate they are not, you know, they are not defaulting on their loans which also helps the banks.

We are seeing a lot of multi-family construction in the larger, more urban parts of Montana, Bozeman, Missoula markets, Kalispell, those are all growing rapidly with a lot of new construction for a single family residence but also multifamily.

We're starting to see a comeback in the hospitality industry. The restaurants and hotels are doing better. Of course, the COVID-19 forbearance agreements that we did for folks helped a lot and also the PPP loans. And Montana also had a Montana Board of Investments program that gave working capital loans where a portion was automatically forgiven by the state.

So we are seeing a continual declining of consumer lending. This is primarily probably a function of our lobby is still closed. The tribe, the Confederated Salish and Kootenai Tribes, who own my bank, are very proactive and concerned about keeping people safe.

And as such, they have supported me keeping the lobby closed on a single branch bank, so I can't lose anybody. So we just elected to be concerned and stay closed, which hasn't really affected our business negatively. We've had record years, like I'm sure, everyone has, large inflexible liquidity which gives us a lot of ammo to make loans.

With regard to agriculture, this is, in western Montana, agriculture is a declining operation, mostly because the price of real estate is so high that it makes it almost impossible for someone new to get into the business. And it makes it very difficult for a successful (Audio interference.) operation, because it just does not pencil.

In eastern Montana agriculture is, they have had very little precipitation this year. And they're very concerned about drought activity. And then also there's been a spate of grasshoppers the last couple of years which really harms the crops. The government assistance though started to trickle down and is now helping the ag producers in the state.

Overall, I'd say Montana typically lags the rest of the United States. Our unemployment is still low, around 3.8 percent. And, you know, overall the state's doing okay, outside of the fact that there's definitely a changing dynamic here. We have tons and tons of people moving in, and as such, it's just changing the nature of this entire state, but primarily on the west side.

Overall though, I think my outlook is cautiously optimistic. And I am hopeful that things will continue to rebound and that we will see a strong 2021. And thank you for the opportunity, I appreciate it.

MR. NARVAEZ: Good morning to those of you on the West Coast, and good afternoon to everyone else. I'm Gilbert Narvaez, Jr. I am President and CEO of Falcon Bank.

I'd like to thank Madam McWilliams, Chairman McWilliams, Director Gruenberg, Betty Rudolph, Arleas Kea, and the rest of the FDIC staff here today for the opportunity to participate and serve in the Advisory Committee. I'd also like to thank my fellow committee members for their time and efforts in participating today.

Our bank is headquartered in Laredo, Texas, and we are celebrating our 35th year in existence and we are fast approaching the $1.7 million mark.

We conduct a significant part of our business along the Texas/Mexico border. The bank's 17-branch footprint also extends into the south central Texas region which includes the San Antonio and Austin metropolitan areas.

Our branches service communities that are comprised of predominately Hispanic population and also serve many customers in the low to moderate income areas.

Being that Laredo is one of the largest ports of entry between the US and Mexico, international trade and transportation sectors continue to be very active and very important sectors of our operating environment. We are very grateful that throughout this pandemic, the international bridges have remained open for the international trade business.

The local economy has improved to a level as close to business as usual as possible, with the exception of continued safety COVID-19 protocols which is pretty much the norm everywhere. The new number of COVID cases and hospitalization rates continue to decline to all-time low levels in our areas. This has been mostly attributed to the continuation of safety protocols and aggressive vaccination efforts.

Percentages of the population in the areas we operate have received at least one dose of the vaccine ranging from 35 percent to close to 60 percent in some of the areas. I'm happy to report that over 75 percent of our bank staff is fully vaccinated. And we've actually had a very proactive approach in trying to get everybody vaccinated.

Our customer and employee safety has always been of utmost importance to us. So we have fully opened up all the branches to normal hours. However, we continue to operate with the proper, safe social distancing protocols.

We have only five percent of our workforce that is currently working, still working remotely. And that's from a high of 35 percent that we've had at the peak of the pandemic.

Locally, in our areas, most grade schools have resumed in-person schooling. Universities and higher education programs still are being conducted in a hybrid model on campus and virtually.

We continue to support our community. We continue to meet the banking needs of our customers. We continue to participate in the latest round of the PPP Program. The second, the most recent round has been about half of the dollars and the number of loan requests that have come in from the original round.

So we continue to also assist the local food banks and other civic organizations on any pandemic-related relief efforts. So we've really been, we try to be one of the leaders also in the community to make sure that we are out there. We were the first economic responders.

We continue also to assist our borrowers with the submission of the PPP note forgiveness documentation to escalate, which has been a nightmare to some of our customers, you know, after the first round. But I think SBA has smoothed up the process now.

Other areas and components that are being affected, earnings, our earnings at the bank have stabilized. But they still have been adversely affected from prior years. And that's a direct result of the further compression of our net interest margin caused by this zero interest rate environment.

Liquidity continues to be plentiful, just like everybody else. Loan demand has slowed in most sectors but very competitive in those sectors with activity. So we're competing with the, you know, low rates. And we're competing also with fixed rate products that we've not seen in our banking career.

Capital, we're strong and healthy despite the slight decrease in earnings. Our credit quality, we've seen a slight uptick of non-performing loans on some customers that are struggling to get back on their feet. However, these trends are still far below our expectations, our earning expectations.

Thank you for the opportunity to report on our local trends and conditions. I'd like to introduce our next scheduled committee member speaker, Betsy Johnson, President and CEO of Solutions Bank.

MS. JOHNSON: Thank you, and good afternoon. I come to you from Illinois, land of Lincoln, Ulysses Grant, Ronald Regan, and don't forget the Fighting Illini which, I think, they're still licking their wounds from March Madness.

So, like Gilbert said, Betsy Johnson, I'm in the middle of the list, so we might be half-way through, President and CEO of Solutions Bank. We're in northern rural Illinois and we've got locations in Forreston, Freeport, and Kent, two hours west of Chicago, about a quick half an hour from the Wisconsin's southern border.

The history of our banks, two long-time banks brought back pre-Depression, two bank holding companies from '98 to 2014. We were merged with two charters and went to a service center with our core processor, Fiserv, due to changes in technology, cost of technology, and digital ranking services. And we also eliminated some shared employees we had between the banks due to, you know, continued regulatory obligations.

And beginning in 2020, we just acquired a $100 million community bank with two more locations. And we merged those charters with our existing Forreston State Bank. And in September 2020, we branded with a name change and went through that process which is working out very well.

We just recently announced another agreement to acquire a $120 million community bank with also two locations upon regulatory approval. And we'll merge those should everything be approved in first quarter of 2022. That puts us at seven locations in four very nice counties in rural northern Illinois at about $407 million.

Solutions Bank is mainly an agricultural bank. We're gaining more in the commercial business area with those additional locations and larger communities. Our ag portfolio is about 90 percent crop farmers. So very little livestock.

Land values, which, you know, are consistent with other bankers that I hear throughout the states, remain constant and, I think, at a very high level. It's a typical story, demand from the neighbors, a lot of generational farmers, of course, which is one of the reasons we felt we needed to grow the bank to keep up with our growing customers and to service them.

Experiencing very little to no delinquencies, especially no delinquencies in the ag sector. And also another topic I know is carryover, we're seeing very little of that. Our customers are ag customers that have been, over the years, become very sophisticated, not only with their equipment but handling of their commodities and products to be successful.

COVID, like other banks, our staff has been extremely resilient as well as our customers, willing to be accommodated through appointments, drive through. They take advantage of the digital services, fortunately that we already had in place. And it's been then still a very successful year during 2020 for the bank. And we also look to continue that through '21. We anticipate moderate growth though.

Communities in our area really didn't suffer financially as they did in other areas within our state. I can speak of Chicago which still seems to appear to be somewhat a ghost town compared to pre-COVID.

Illinois struggled with a vaccine process. But as of the last several weeks, fortunately that has been made available to bankers as essential workers after a plea to our Governor.

We have people going, even retirees going up to Wisconsin borders to get that. So sorry about that. I speaking Wisconsin vaccines. But again, we do what we need to do and hope to get it done.

State of Illinois unemployment rate is a high at 7.7, the last I have reported. A year ago it was just under four percent. State of Illinois itself has its own issues, you know, prior to COVID.

Even though Illinois is still, well, it's still second to the state of big Texas in number of bank charters. Last report, I believe it was 396 charters in the state of Illinois, down approximately 13 percent. And I hear from brokers that number is going to continue to increase as a lot of acquisition mergers were held up due to COVID.

State of Illinois still each year proposes their own bank, and I hope that never occurs. So as in the State of Illinois right now, I can't imagine them running a successful bank as it is today. But that's probably not funded as State of Illinois.

Examination processes though, our last state exam was held virtually and went very well. They have to utilize the FDIC's Connect. To thank you very much, because that is an excellent tool. A couple of years ago, our last FDIC exam, we were able to use the FIVE by Image Viewer for examinations of which we were a Beta 4.

We had that opportunity, so I signed us up for our quarter. And I asked my staff if that was okay. And of course, fortunately, they said that sounded like a great idea. So our FDIC exam that we had, we went through that. And the examiner and both us, that was our first time using it, I hope it's still active and being used, it was fantastic.

PPP loans were very much the same as other banks. Our numbers for PPPs from the time that it started, we did approximated 350 loans, $6.7 million, $4.8 million is still on our books. That equals to about 250 loans.

And the other, a very nice line item on many of our income statements was the income. So that was a very nice thing and helped, I believe, everybody out through 2020.

Our PPPs ranged, I just want to comment about the associations. We were not an SBA lender, so we had to go through two different fintechs to be able to utilize that process. And every day was, we all know, it was different, things changed, especially when it first came out.

Our bankers, our lenders were just amazing. The industry support through the associations, the 0IBA and the ABA, were extremely helpful. And like I --- I always tell everybody, bankers are problem solvers. And they reached out to other bankers, and it was just truly amazing. I'd like to see how that happens.

Again, I think we are problem solvers, and I am glad to be on this committee. Chairman McWilliams, very pleased to tell you that I think have brought some great enthusiasm and energy to your office. And I hope that's not only perception but a reality for the FDIC and your staff. I think they are wonderful, all that I have come into contact with.

So I hope our -- our topics are sometimes dry, and the process regimented. So I appreciate your next attempt to lighten the mood in them. Thank you very much.

MR. HAYES: Good afternoon. Can everybody hear me okay?

MS. KEA: Yes, we hear you fine, thank you.

I'm sorry, it does appear now that you've gone on mute, Steve?

MR. HAYES: What, what now?

MS. KEA: You're good.

MR. HAYES: Okay, great. Again, thank you for this opportunity, Chairman McWilliams, and Director Gruenberg, and the staff for this opportunity. My name is, again, Steve Hayes. I'm President and CEO of Dakota Prairie Bank, located in central South Dakota.

I'd also like to reach out to our newest members who were just recently appointed. This is a tremendous group to be a part of. And hopefully, someday, we can all get together.

Dakota Prairie Bank is third generation, family owned, established by my grandfather in 1906 with about $120 million, $125 million in total assets, four locations. Three locations are in rural communities, populations of 500 to 800 people. And I would say we're probably 90 to 95 percent ag portfolio.

Our main office is located just across the Missouri River next to our capital of South Dakota's Pierre. And that community is about 25,000 to 30,000 people. But there is a nice diversity in the commercial and the consumer type lending. So that's nice compared to the other locations which, like I say, that's always been ag since inception.

We talked a lot about COVID, and I think as mentioned about optimism but cautious, you know, we're seeing a lot of changes, some positive changes moving forward here. All the staff, and our staff is back, back to work.

And I think the majority of the banks in the state of South Dakota are open. And there might be a few that it's appointments only in drive-up facilities. But for the most part, we're open.

I think overall it's going well. Our employees, I'd say the majority of our employees have had their shots and so forth. So really optimistic, but yet when I say that, I see there's an uptick of some COVID in that range, 19 to 46, 47 year-olds. So hopefully the vaccinations continue on. And hopefully we can turn this around.

You know, I mentioned earlier about the $120 million in assets. You know, part of the, a big part of the pandemic is obviously we've seen the increase in deposits and so forth.

Well, for us, you know, we're talking about the PPP loans. Our first go around, PPP was targeted for our commercial. We did about $3 million at that time. And then a few months later we did the second round of PPP targeting the farmers and ranchers. And that's been over $6 million right there.

And then there's the second draw of those PPP loans, you know, where they have to show a 25 percent decline in income from '19 to '20. So we're going to possibly see another $2.5 million of second draw loans. So that's been a big part for us, is that the PPP loans, because, you know, our economy itself, the PPP loans, the government assistance, they have helped tremendously. They really have.

Out here, we pretty much have the grain producers and the livestock producers. And our farm economy is going really well. I mean, we're seeing some nice changes in our equities. Our carry-over debt's been taken care of for the most part. You know, our livestock, obviously they've helped, tend to help as well. But, you know, it really has done very, very well. I mean, they really worked hard.

And as we're saying about resilient, they're really done a nice job. But it's helpful to have the government payments and so forth. But the commodity prices have really changed from a year ago. So we're excited about that.

As far as our commercial activity, we're seeing improvement. But I just hope that, you know, is it going to tell, maybe six months to a year from now? Because a lot of them are using the PPPs, the grants from the state and so forth, to get through.

So I'm hoping that this will start turning around in the restaurant and the hotel business here in South Dakota. Tourism, I think it's, we're seeing the uptick on bookings, especially out in the Blackhills, Mount Rushmore area. So that's really encouraging to see that.

As far as our numbers, you know, we turned out fairly well. It's the same issues we talked before, liquidity, and managing our balance sheets, and margin compressions. Because right now there's such a tremendous competition for, you know, the good quality of loans and trying to turn that cash into a little bit of return. So that's been a challenge.

And I think the challenge moving forward is really just managing our balance sheet which is the same as we've heard before. And it's going to continue on.

If there's one thing that I mention, and there was another gentleman that brought this up about our community bank leverage ratio, and I know that expired in March, I believe.

You know, we just had our ALCO meeting this morning. And we were looking at the deposits coming in. And I see that more and more money is coming in from townships and counties, part of this last stimulus package. And so this is going to continue to grow, and grow, and grow.

And I just, you know, that's a challenge. We need to, it is what it is, and we're excited to be a part of the community, and excited to help. That's what a community bank is, we're all aware of what we can do. But it poses some challenges. And I'm just curious to see if the FDIC has looked at maybe extending that but, overall, pretty excited, pretty excited. I think, overall things are going well.

I just want to conclude, for comment for Chairman McWilliams, in January of '21 we had a Safety Soundness IT and BSA all offsite. The crew from the Sioux Falls, South Dakota, office did a tremendous job. The communication, which I always say, both from the regulators and the bank, is number one. It needs to be there, and it was. It was really good. I mean, the communication was just super. They've been very accommodating.

If there's one thing that I want to comment on, and you've heard that before, I know, and it was brought up at the last meeting in October, you know, offsite has worked really well. I was nervous about the process, but it really has worked well overall. It really did.

But out here when you're looking at loans, sitting across a desk or a regulator, in person would be very helpful. So I hope someday that we can at least get a part of our exam back to onsite.

But overall, thank you. Our Sioux Falls crew, regulatory crew, did a fantastic job. So I appreciate that. That's about all I have. Thank you again for the opportunity to be on this Board. And I look forward to the rest of the meeting. Thank you.

MS. OLDNER: Hello?

MS. KEA: We hear you, Marnie.

MS. OLDNER: Thank you very much. My name is Margaret Oldner on the schedule, but I do go by Marnie.

I am very pleased and proud to join this committee. I thank you Chairman McWilliams and Director Gruenberg for joining us today and for including me in this discussion.

I am the CEO and Director of Stone Bank, which is a $540 million Arkansas-based small business and ag bank.

In addition, we originate about $100

million of government guaranteed loans annually and have a nearly $400 off-balance sheet portfolio of loans we service for others.

This bank, although chartered in 1955, was bought by a group of people, private folks, in Mountainview, Arkansas, in 2009.

At the time, the bank had dwindled to about $10 million in assets and was in a dying south Arkansas farm town where the population was moving away, as were business.

So that bank, we really started over in 2009. I joined the bank in 2011. In 2015, we rebranded as Stone Bank and developed a growth plan to grow to a $500 million bank by 2020.

We did reach that $500 million target before COVID hit, and then we kind of surged ahead to that $540 million rather quickly with the influx of deposits and with the origination of PPP loans.

In the state of Arkansas, we've done, the banks have done about 84,000 loans totaling $4.7 billion.

At Stone Bank, we did almost 800 loans totaling about $70 million in PPP loans. And most recently, that included Schedule F loans to farmers, which I think has been very helpful to our farmers who do suffer from very tight margins anyway and with the pressures that have been on our poultry farmers in particular due to COVID, that was very helpful.

In the state of Arkansas, I don't think we've suffered as significantly as other states as a result of the pandemic, but it has had an impact.

Our economy was not shut down as strongly as in some places, and the trends recently have been very favorable.

Right now, in the state of Arkansas, we have just over 1,600 active COVID cases. I think there's less than 200 hospitalized at this time.

And the trend numbers are very good. And so, we hope that it stays that way and that things can open up more and more.

Like most banks, we are doing well. In the state of Arkansas, I think that we do outperform the nation as a whole when it comes to a return on assets and capital levels and earnings.

And so earnings are strong for Arkansas banks this year and they are for us as well. Asset quality indicators are surprisingly good.

I think Director Gruenberg mentioned that as well that that is a surprise. A year ago, we anticipated much more problems.

We prepared a COVID-19 Impact Analysis and Plan among other things that meant we were moderating our growth rates and looking to preserve our capital and setting aside larger amounts of reserves for loan losses.

We continued this approach through 2/1/2021 but we still see no real significant signs of loan portfolio weakness.

We are cautiously optimistic as well, but can't help but think struggling borrowers will become more evident in the year ahead.

We hope for continued regulatory patience and guidance, which has been so helpful over this past year as we continue to work with struggling businesses and farmers to get them through the post-COVID months and back on their feet.

The cooperation between regulators, bankers, and borrowers could make a huge difference in the years ahead as we work to help our customers and communities through the post-COVID recovery period.

In addition to the concerns that surround uncertainty at every level, we also are concerned about the fast pace of changing technology.

We know that we are challenged to deliver services in a different way and that our customers do expect that.

The pandemic accelerated that a good bit, but it was already on a very fast changing pace.

So as a community bank, we are looking at ways in which we can do that carefully, weighing the risks and the rewards.

But there are so many fintech companies to work with. We're on Fiserv. I think about 71 percent of banks (video interference) Jack Henry.

All of them are not known for being particularly nimble, and so as we try to deliver the types of services that consumers seem to want and need today, we do need the help of fintechs, but being able to vet them all is a very big challenge.

We would love regulatory support and help in combining ways that we can do due diligence more in teams or in groups so that we can share that information with one another.

We're also concerned about the ever growing cybersecurity threats, such as SolarWinds, Finastra, and Microsoft that we talked about earlier today.

Managing fintechs is what I alluded to

as a concern for us and the threats to banks and consumers alike that are posed by special purpose charters.

And we are hopeful that the trend at the state levels to designate special purpose charters does not take off and that the federal regulators will help us with that.

I look forward to learning so much more from this committee. And again, I'm very thankful to be a part of it. I appreciate it very much.

MR. LOWRY: Hello, my name is Bruce Lowry. I'm President and CEO of Ireland Bank in southeast Idaho, headquartered in Moab, Idaho, which is a small town just north of the Utah border.

Our bank was founded in 1892 and we are currently the oldest state-chartered bank in the state of Idaho.

We have $320 million in assets, 14 branches, and about 108 employees. Five of our branches are located in communities where we are the only financial institution, and so we're proud to be able to serve those kinds of communities.

Historically, we've been an agricultural bank. Today, the agricultural sector represents about 25 to 30 percent of our portfolio.

So we have diversified quite a bit in the last several years. Like everyone else in the last several months or a year, we've been dealing with COVID issues.

We did have to have a temporary branch closure in one of our communities for about a week, week and a half, due to staffing problems because of COVID.

We made it through that and worked through everything and now we're doing very well that way across our bank.

I would just echo some of the comments that a lot of the peers here have made and the concerns that we have in our area center around the growth of our deposit base.

And the economy is doing very well in our part of the world. We're having difficulty with housing and continuing to try to find ways to help people find affordable housing and as we're having great population migration in Idaho and it's driving the cost of real estate fairly significant.

We did do a lot of PPP loans, for us, anyway. We did around 270 of the first round PPP loans, $13.5 million of those.

Second round is going to have a much higher number of loans, actually, which is a bit surprising, but a lot of that has to do with the Schedule F loans that others have mentioned.

But the dollar volume is about half, is what we're seeing on average.

I would just like to thank Director Gruenberg and Chairman McWilliams for having this forum for us and having the opportunity to serve on this committee.

Two years ago, our western region, the San Francisco region, would do roundtable discussions with CEOs and I really enjoyed those, participating in those, and having the chance to talk to FDIC staff about things that we were facing and the issues that we were seeing and at least letting them know how things are on our side of the desk.

So with that, I look forward to the rest of the meeting and thank you very much.

MS. KITNER: Good afternoon. My name is Cindy Kitner. I am the President and CEO of Jefferson Security Bank in Shepherdstown, West Virginia.

I want to thank Chairman McWilliams and Director Gruenberg for your leadership and for this amazing opportunity.

I appreciate your interest in hearing the successes and challenges that we as community bankers face every day, and appreciate all the work and efforts of all of the FDIC staff.

Shepherdstown is located just across the state line from Maryland and with close proximity to Virginia. We are about 70 to 80 miles from Washington, D.C.

Jefferson Security Bank was embargoed in 1869 and is the oldest operating corporation in the state of West Virginia.

Our current asset size is just under $400 million. We have six locations, five of which are in West Virginia in the counties of Jefferson and Berkeley.

These counties offer multiple banking options. Our share in recent unemployment levels of 4.2 and 4.9 percent, with growing populations and labor force participation rates that exceed the statewide and national averages.

Our counties offer strong employment opportunities from a variety of small and mid-sized businesses as well as large manufacturing facilities and distribution centers that are just across the state line.

Our sixth location is in Sharpsburg, Maryland, with a population of about 800. And in this case, we are the only bank in town.

Many of our employees and others in

the area have begun the vaccination process and some have received their second dose.

Our small businesses have done a remarkable job of adjusting during this pandemic. Some remained open throughout while others shifted to either online sales or carry-out options.

Our local residents have the option to engage to their personal level of comfort with shopping or dining to full capacity, limited capacity, or with carry-out options.

Our proximity to the Baltimore/Washington areas allowed some of our small businesses to expand their clientele during the pandemic, as many in the cities were looking for a close and safe getaway.

We actively participated in the PPP lending with 325 loans in round one for a total of $15.4 million and an average of $47,000.

Only 16 of those loans were over $150,000. So far, we have 157 round two loans, and about 30 percent of those are draw ones.

In total, when we factor in the increases for the round ones, we have originated a total of $24 million in PPP loans.

We've remained focused on ensuring our small businesses that qualify have the opportunity for these loans, and we continue to see the recent activity with those loans.

We all realize that this is a program that provided us a unique opportunity to support our small businesses, and like many others, we took that role seriously.

We worked diligently with our customers to ensure an understanding of the ever-changing rules.

Financially, we've experienced the same trends as others with increased asset size, liquidity, and similar impacts on capital.

We've also seen similar trends with our loan delinquencies. We will continue to focus on our allowance, our loan losses, and our capital loans.

In the first quarter of this year, we

completed our compliance as well as our safety and soundness examinations.

I appreciate the FDIC's efforts on a risk-based approach. I will say that it's not unusual for us to host a training team, but this training team was exceptionally large.

We had a good bit of conversation, and I hope that it was mutually beneficial. I know that we certainly saw benefit, and the team did a great job.

I want to quickly acknowledge the FDIC's academic challenge. Shepherdstown is home to Shepherd University, and one of my passions is working with our students.

We currently have two interns, one undergrad and one grad student, both of whom have expressed career interest in community banking, which is very exciting to us.

I also wanted to mention one regulatory matter, banking, and cannabis activities. I know this is not a new topic, and one that requires Congressional action, but this is a growing concern for many of us in the area and others as the states proceed with legalization.

This is not a matter of personal feeling or opinion, but a request for regulatory guidance to help ensure as bankers we are clear and consistent when faced with new customer activities.

Thank you to Chairman McWilliams, Director Gruenberg, FDIC staff and others for your continued efforts on strengthening community banks.

MR. BOCK: Good afternoon. My name is Mike Bock. I'm the CEO of Dairy State Bank in Rice Lake, Wisconsin.

We are located up in Northwest Wisconsin, about 100 miles straight east of Minneapolis/St. Paul.

Our locations are in a mixed market area. Down in our south side, we have some prime agriculture. We have some light industrial and some educational and medical centers.

And up in the north edge of our market, we are largely tourism, with lakes, resorts, lumbering. We do have some education centers and medical centers as well.

When we started the COVID period, we were about a $515 million bank. We have now gone in excess of $650 million.

Obviously, a lot of deposit growth taking place at that time, but we have not experienced the same level of loan traffic other than a lot of PPP work. Loans have been relatively flat.

Wisconsin as a whole is fairing fairly well in the COVID challenges. Currently, statewide we have a 3.8 percent unemployment rate, which is almost back to the pre-COVID rate of 3.3 percent. So some positive trends going on there.

Up north, we're still running about 5 percent unemployment rate, but it's almost hard to believe at times because as we visit with our different businesses and industries around here, virtually everyone is seeking help.

And I think that is going to be one of our biggest challenges going forward for our business customers and businesses in even the summer months, is just finding the help they need to get their jobs done.

COVID trends have been running pretty good up until last week. We had some negative trends as of late, still certainly within palatable levels.

We have had lobbies open at all of our locations on a somewhat limited basis since last November, and we have had them open.

We've had a few staff in and out with some quarantines, some positive tests, but overall, nothing serious.

Current vaccination rates in the area are running about 15 percent, growing every day. Real estate prices in the area have been really interesting.

It started on an upward trend early last summer, continued through the summer into the fall, and it's being largely driven by people up in Minneapolis/St. Paul market.

Those of you that watch the news, some dynamics in the Minneapolis/St. Paul market last summer, some of the rioting, et cetera, with the onset of working remotely and some of the challenges of the Minneapolis market, some of those folks have sought places on the lakes over here and they've relocated and they are starting to work remotely and just going to the Twin Cities on an occasional basis.

So that's a great thing in terms of our area. We've got us some people. But it's obviously driving real estate prices. This was mentioned earlier by one of the people.

It is getting to the point where it is hard for some of the local residents to buy a place that they can afford.

And with our labor challenges, it becomes even more pronounced because affordable housing is almost a non-existent case right now.

Construction costs continue to go up.

There have been some multi-family complexes that have tried to go up.

They've run numbers and they're finding that the required monthly rental rate to make those things palatable is just not coming off very well, so that people in our markets with the employment that they're seeking is just not going to be able to afford that.

So we're kind of in an interesting balance, challenged by COVID but at the same time most of our businesses are challenged by labor shortages while they still work through the challenges of COVID.

2020, obviously, was an interesting year for everyone. Started out the COVID scenario, worst case scenario for everything and it turned out for some of our industries that they set new all-time records, both revenue, profit, right on down the line.

Now it wasn't everybody that was that fortunate, hospitality, being bars, restaurants, hotels, those types of businesses, were challenged.

Bars and restaurants have bounced back relatively nicely but hotels continue to be challenged.

We'll see how that changes as we move to the summer months and maybe people come on board to start heading back to northern Wisconsin again.

Other areas that we've bumped into that has a few challenges is senior living facilities, not so much that they have occupancy issues or COVID issues, but we experienced some significant labor rate changes in that market around here, and most of those facilities, with the rentals that they do, take 12 to 18 months in order to adjust contracts for the residents that are there, to adjust for that.

Delinquencies currently for us are in very good shape. We've got just a couple restructured loans that do exist in the hotel, restaurant, and senior living areas, but I think those are going to be coming back on a full performance basis in the next couple months. So we're looking good from that standpoint.

As we've talked to businesses as they finalize 2020 and receive financial statements, we're looking forward to 2021.

Guarded optimism, I guess, the word I would say. A lot of positive things are happening but some of these businesses are starting to run into challenges on different fronts.

Obviously, COVID still exists. I mentioned labor. We're running into a lot of supply chain issues over in this part of the country.

Businesses that are trying to get the raw materials they need to get the products done and out the door, they're having a lot of difficulty.

Pricing is good for about 24 hours. Most construction jobs will commit a 30-day price and it proceeds accordingly.

And as I mentioned earlier, obviously,

we've got some challenges in the loan world right now in terms of competition. It's relatively flat.

Liquidity is accessible over here, so we're starting to see some very, very competitive pricing and some very generous loan conditions that are being put together in terms of collateral rates and other underwriting issues that go with it.

So as there's guarded optimism looking forward, we're just not quite sure where that's going to take us.

A lot of businesses are saying six to nine months they feel very good about what's to come, but they're just not quite sure what's going to come beyond that.

Mortgage activity has been phenomenal. Again, a lot of the business we've had are customers coming over from the Minneapolis/St. Paul market.

Mortgage refinance continues to go on, but a lot of it is new purchase, a little construction, but generally purchase work that's going on right now. And it's mostly out of state people that are buying our properties.

Mortgage lenders and customers still are adapting to the new mortgage loan applications, being pretty much in sync with that, but it's taking a little bit of time.

Like everybody else, we are very active in the PPP world. First round, we got up and running relatively quickly.

We were not an SBA lender previous, but we got in the system relatively quickly and we started moving loans relatively fast.

We did about 240 loans through the first wave, for a total of just short of $25 million. We have most of that first wave through the forgiveness process.

We're down to about 1,000 loans. We've got about six of those in the SBA black hole for different reasons.

There's some questions, there's some issues and things we're trying to resolve. We have most of the first wave done.

We have basically doubled the number of loans in the second wave. The loan dollars are significantly less.

The second wave is definitely going to what we call the truly small business, the self-employed, the small farmers, those folks that really needed a lot of help through the whole system.

So generally, in this neck of the woods, there's some guarded optimism with what's to come. All of our schools have been open in the area.

Our four-year college has been open. Our tech school has been open. We're all just kind of waiting to get through the end of the school year to make sure everything continues on a positive pace and hope it doesn't speed back up.

We have had some of the new strains of COVID pop up in the area, and it seems like the people that have been infected by the new strain are getting sicker than those that went through the first wave.

And some of those folks are getting the new strain even after they've gone through the vaccination process.

So COVID has yet to be seen where it takes us in that area right now. It's controllable, but a few things are changing that keep us on our toes.

So overall, things look positive in the area. Things at the bank look good. A lot of liquidity, like many others have addressed.

Something we're going to have to keep tackling. But rather have too much liquidity than not enough as the rest of the world .

So cautious optimism. Things look good in the area at this point. Hopefully, it'll get better in the summer.

And again, to the FDIC, thank you very much for the invitation to join this group. I look forward to future meetings.

MR. HORVAT: Good afternoon. My name

is Hal Horvat. I am the CEO and President of Senator Bank.

We are a 192-year-old mutual settings institution based in West Warwick, Rhode Island. West Warwick is primarily, originally a mill town about 12 miles south of Providence, very much blue collar work area, very densely populated.

We have 17 branches in Rhode Island and nearby eastern Connecticut. Nine of our branches are in Rhode Island, eight are in eastern Connecticut, and we are $1.9 billion in assets.

Last year was certainly a challenging year, not just because of the pandemic but we also completed an acquisition in May of last year during the middle of the pandemic where we purchased for cash a bank in eastern Connecticut called Putnam Bank, approximately $550 million in assets.

I would not recommend completing an acquisition in the middle of a pandemic. It created all kinds of challenges. But we got through it fairly well.

In addition to the acquisition, we also opened up two new branches in Rhode Island and a loan production office.

In addition to that, we also did a core conversion in December, so we certainly had enough going on. But we came through it very well.

We had record earnings for the year. We had improved efficiency. We had record loan growth, both on the commercial side and on the residential lending side.

And deposit growth, and most people know across the country, has been pretty significant.

In terms of PPP loans, we certainly were a participant. We did over 100,000 loans for over $100 million.

Gave us an opportunity to really service customers but also differentiate ourselves from the larger competition in this area.

We really embarked pretty quickly on it and we're pretty successful. Overall, Rhode Island, the economic conditions are kind of a mixed bag.

It's really the tale of two economies. Some industries continue to really struggle, certainly those in the hospitality sector.

In Rhode Island, we have our share of those industries tied to tourism and tied to restaurants and hotels, et cetera. They have continued to struggle.

We have other businesses that have really been going great guns. Anything tied to construction, et cetera.

Our asset quality remains very strong. Deposits remain strong. And the housing market, as most people have said, is particularly robust.

We've had a lot of influx of folks from cities, New York City and Boston, moving onto our coastline.

Properties are going sight unseen. Generally, there are bidding wars for those type of properties. And as many people have mentioned, inventory is very low, at the lowest levels it's been.

We are a community bank. We're very proud of the fact that we have a foundation. Last year we were able to donate over $1 million into the community.

It was particularly important last year because of all of the issues happening with regard to the pandemic, and we're very proud of being able to do that.

In terms of where we look going forward, the refinance activities continues to be very strong and we anticipate that happening throughout the year.

Commercial real estate is our bread and butter as well. As competition is fierce in that arena, as you can imagine.

A lot of banks are looking to make use of that liquidity that they have. Very competitive. Margins are very thin.

We've seen a lot of uptick in

industrial facilities and solar power in particular, which has been driving the market.

And we're seeing insurance companies add to that market as well, which makes it a little more competitive.

In terms of concerns, in Rhode Island it's a very competitive marketplace. We are overbanked.

Recently had four or five Massachusetts institutions that have moved into this area. And Chase has opened up 16 locations within the past year in this state.

And we also have three very large credit unions. So there's no lack of competition.

Margin pressure continues to be an issue. And in particular, the hospitality industry recoveries is very concerning because we do have a concentration in hospitality loans.

We have participated in deferred, a number of loans to the tune of about close to $100 million.

We continue to see some of those folks struggle, and that's a concern as we head into our exam, which is July of this year.

Political climate in Rhode Island is not exactly the most business friendly, and that's a concern as we are a state of small businesses, primarily. We have very few Fortune 500 companies.

But overall, I think most people are optimistic as we reopen the economy. We certainly are optimistic and feel pretty bullish on Rhode Island and eastern Connecticut.

It's my pleasure to be here and I really appreciate the opportunity to participate and look forward to participating in the future. Thank you.

MS. MESSERSCHMITT: Good afternoon Chairman McWilliams, Director Gruenberg, and all the FDIC staff and fellow bankers.

My name is Teri Messerschmitt. I'm the President and CEO of South Ottumwa Savings Bank in Ottumwa, Iowa, and located in Wapello

County, which is an agricultural community. And it's located in the southeastern part of the state.

Ottumwa is headquartered here, and we are 117-year-old bank. And we have about $565 million in assets.

The unemployment rate in Wapello County usually runs a little higher than our state average.

The Wapello County rate has been about 5 percent, with the state average at about 3.5 percent.

Iowa has one of the lowest unemployment rates in the country and we also have one of the highest labor participation rates.

And because of that, unfortunately, we've got Iowa with a declining population, and that's resulting in a shrinkage in our workforce.

As businesses are continuing to open up and expand their capacity, many businesses are going to need to hire more employees. And that's a major concern for our state.

We are opening back up, like I said. The COVID situation in Iowa right now, Iowa does not require masks to be worn in public and we do not limit the size of indoor and outdoor gatherings.

Over 1.6 million people in Iowa have received at least one dosage of the vaccine. And that amounts to about 50 percent of our population.

We do have about 37 percent of our adult Iowans who are fully vaccinated. And anyone over the age of 16 is eligible for the vaccine.

Positivity rates are running around 5 percent. It is encouraging to see some of the venues start to open back up in Iowa.

The Iowa State Fair was cancelled last year. They've announced that it will be held this year. And they have a few schedule of grandstand shows lined up for this year.

The school districts, they're still

really all over the board with some of them 100 percent in class and some of them still 100 percent online.

Our bank does continue to service our customers. All of our lobbies and drive ups continue to be open to serve the needs of all of our customers.

One of the challenges that we found from the pandemic is access to high speed internet. Approximately a third of our Iowa counties do not have reliable internet services.

And about 20 percent or less than 20 percent of Iowans have access to affordable internet.

And that internet needs to be accessible. It needs to be affordable. And the state is addressing that issue.

And they have approved spending $450 million over the next three years on broadband.

I would say that 2020 was a very busy year for us in spite of COVID. I'm proud to say that we strongly supported our businesses and our communities by participating in the PPP program.

In 2020, we did originate around 300 loans, and that was for a total of about $16 million. 2021 has continued to be very busy with the PPP loans.

And we have processed about 550 loans and that totals about $11 million on the second PPP funding that was approved.

We are very committed to continue to offer the PPP funding with all of our customers as long as the funding continues to be available.

The low mortgage rates also helped us significantly in 2020 with home refinances and home purchases. And we will see that continue and are continuing to see that during 2021.

The fee income from both the PPP program and the residential real estate programs have generated significant fee income for our bank.

They did that in 2020 and we see that trend continuing significantly in 2021 as well.

This will help our bank continue with

the decreasing net interest margin. The net interest margin has been and continues to be a concern for our bank.

Limited new loan demand in our area causes us to have about 40 percent of our assets invested in the investment portfolio.

We also have increased competition for existing loans due to excess competition with other financial institutions in town.

We have seen, like others, that there's some pretty competitive low interest rates being offered out there and for some really favorable terms.

The low interest rates on the new investments also hurts on our margin, as well as our existing investments that continue to mature or either get called or continue to be paid down.

And as a result of that, we've seen our net interest margin fall to about 2.7 percent.

On the deposit side, we're just like most banks. We've seen our deposit base continue to grow with the PPP funding and the stimulus funding.

Liquidity is not an issue for us, and actually is more of a challenge for us to get it invested.

On the loan side, we have a concentration of ag credits with the ag portfolio greater than that of most of our capital.

And this sector has benefited significantly during 2020 and into 2021.

Due to that, increased FSA payments that our farmers received and the USDA Corona Food Assistance Program, the CAP program, that has helped significantly.

Also, the increase in the commodity prices have benefited our ag sector very much.

Farm real estate land values have stayed stable as well as the farm cash rents. Crop inputs for the most parts have remained relatively flat, with the exception of fertilizer.

The outlook for 2021 is positive for

the ag sector at this time. We've still got the PPP program. We've got round three of the CAP payments and the current commodity prices.

Farmers have taken advantage of the current commodity prices by selling their inventories of store grain at the current levels of pricing.

They also are locking into some of their future pricing for some of the 2021 new crop production.

Our loan quality continues to be strong with very little delinquencies. All of our customers that had modifications during the year that were made are back on a paying status except for three, which will end in the next three months.

We continue to increase our provision for loan loss expenses with the uncertainly really of the COVID situation still ahead of us.

We did segregate the hotel and the restaurant sectors out of our loan portfolio, and we are allocating more of our provision expense to the sectors.

In addition, we did place a few of those loans on our watch list. And we still continue, though, to monitor all of the sectors in our loan portfolio as we proceed with opening up of the economy and as the COVID situation continues.

In January this past year, we completed an operational merger with the Peoples State Bank into one data processing system.

Our legal merger took place about a year ago in January of 2020 and we operated two core systems for two years.

During that time in January, during our conversion, we also had a State of Iowa Virtual Exam that started the day after our conversion weekend.

We had great employees and I appreciate all their hard work to make such a smooth transition on our new conversion and also with working during the examiners during this process.

I also appreciate the examiners who were very helpful with providing suggestions and resources to us as we continue to fill the shoes of our long-time compliance officer who retired during 2020.

The exam was very efficient and we were very happy with the process.

I want to extend a continued thank you to the FDIC and the Iowa Department of Banking for all their system and support throughout the year.

Thank you very much for your time and I appreciate this opportunity.

MS. KEA: Teri, thank you so very much for wrapping us up at the end, and let me just say thank you to all of the members of the committee.

I just really appreciate your candid sharing of your observations from your communities.

And this is one of the main reasons why the chairman has convened this meeting, so that we can hear from you all firsthand about what's going on in your communities.

There were common themes that we heard. Many of you talked about the impact of COVID on your operations as well as on your local community.

Many of you used the word guarded optimism in terms of your thinking for the future.

You talked about the housing market, mortgage market, labor. You talked about your experience with the PPP loans.

And many gave great updates on what's going on in the agricultural communities. You all gave examples of what you're doing to support your communities, or you talked about it, and that was very, very informative for us to hear.

And then some of you gave some feedback to us in terms of your exchange with our staff as they are conducting examinations.

And we heard you. We heard the compliments and we heard your continued need and appreciation for collaboration and cooperation.

Those were just some of the many themes that I heard from all of you.

So I want to thank you for sharing your concerns. Thank you for talking about your challenges. And then thank you for sharing about your successes.

At this point, I'd like to turn it over to our FDIC staff, Shayna, Kristie, and Frank, and ask them to engage you as they give some of their observations.

Shayna, Kristie, and Frank.

MS. OLESIUK: Great. Thank you, Arleas. And I echo the thank you to all of the participants.

I find that hearing your information and hearing your insights is very useful for our work.

So I will spend a few minutes talking about our team's observations from a national viewpoint on the economy and then I will turn it over to Frank and Kristie for their regional perspectives.

So in my view, things, the themes boil down to two main things, and these match very well with what I heard from you all.

First, the improving economic conditions and the resilience of our banks during the last year.

I agree that I would have that we would have been in a very different place one year into the pandemic, but things are actually much improved.

But also, continued uncertainty on what the post-pandemic economy will look like and what the implications of that is for the major lending portfolios at our banks, particularly commercial real estate, which I heard many of you mention.

So first on the national economy. So, economic conditions have definitely improved since we met last October.

GDP growth for fourth quarter 2020 was 4 percent. And the current consensus forecast for the full year of 2021 is 6.3 percent growth, which is very strong.

Of course, this is coming off of a relatively low base in 2020, and the expectations have been boosted by the fiscal stimulus.

And we're already seeing stronger retail sales and stronger consumer confidence in the first couple months of the year.

So the question of when will we reach pre-pandemic GPD levels? The consensus forecast says third quarter of this year, but some of the more positive outlooks put it at second quarter. So we're very close on an economic output basis.

The story's a bit different, though, for employment. And I heard from many of you here talking about improving employment. And we're certainly seeing that at the national level as well.

However, we still have a ways to go with the number of jobs that we still are below the February 2020 level.

We're still about 8 million jobs below

the February 2020 level. And despite the fact that we saw strong gains in February and March, that's certainly a sizeable hole to fill.

And it's particularly a concern for the leisure sector. The leisure sector was at the center of the labor market deterioration.

And we've seen strong gains in that sector, but there are still about 3 million jobs below pre-pandemic levels.

So still a ways to go in that sector as well.

The unemployment rate has come down from a peak of 15 percent now to 6 percent in March. But despite the improvement that we've seen, no region is back to pre-pandemic levels.

No FDIC region, that is. And unemployment remains particularly elevated in the northeast and the west.

So just a few more comments about the commercial real estate sector. So like many mentioned, commercial real estate remains a challenge.

Many segments of CRE are facing challenges, pretty much everything except for the industrial sector which has actually benefitted from the boost in warehouse space demand and things like online shopping.

One of the metrics that we pay close attention to is what property prices are doing. And we see that property prices are down about 10 percent from pre-pandemic levels.

And of course this is important given that this is the collateral protection for most CRE loans.

So down 10 percent overall. For lodging and retail properties, prices are down 20 to 25 percent, but most of that was a drop early in the pandemic. And it's been fairly flat since mid-summer.

The good news, however, is, and relative to the great recession, these property price drops are not as severe.

Back in the great recession, we saw commercial real estate property prices drop about

35 percent.

So in other words, things don't look that bad given the data that we see. And given the improvements in the economy, we're hoping that things continue to improve for commercial real estate as well.

So with that, I will turn it to Frank and Kristie.

MS. ELMQUIST: Hi, good afternoon. I'm a director in the Dallas region. I guess I'd start by just saying going into the pandemic, the fact (video interference) position to handle adversity, really good financial metrics, including soft capital and solid (video interference) by year end (video interference) led by the state of Mississippi, Tennessee, and Arkansas by primarily because they have a larger share of manufacturing continuing to progress really well, and I (video interference) think that's really impressive to see because the challenges were not just focused on the pandemic but we also faced some (video interference) along the Gulf Coast last summer and of course historic winter storms including the big freeze in February.

MS. KEA: Kristie, pardon me. This is Arleas. You are dropping off at every other word. Perhaps if you turn your video off and just use your audio, that might assist. Kristie are you -- thank you.

MS. ELMQUIST: Okay, so can you hear me now?

MS. KEA: Say more. I think you dropped off at the last word, but continue, please. Kristie, I think we've lost you altogether. Are you there?

Frank, are you there? Could you go ahead and speak and we will try to get Kristie back on?

MR. HUGHES: Sure, I hope so. Can you hear me, Arleas?

MS. KEA: We can, yes. Thank you.

MR. HUGHES: Okay, great. I had a WebEx meeting earlier today and had some problems, so that's good to hear.

So I'll be quick. I know we're over on time. It was great to hear the comments from the bankers around the country. And I think what you're going to hear me say is similar to what much of you said.

So by way of background, the New York region includes all states from Maine to Maryland and also includes the District of Columbia, Puerto Rico, and the Virgin Islands.

And of course, the region was at the center of the initial COVID-19 outbreak, with many of the states among the first to close.

Since last summer when I spoke in front of the Community Bank Advisory Committee, we have seen general economic improvement in the region, but at a slower pace than we've seen nationally.

And 2021 regional activity is projected to be slightly below U.S. forecasts.

Labor market recovery also trails national trends throughout most of the New York region.

Unemployment rates are still generally higher than the U.S. level, while job gains have also trailed.

The slower pace of recovery in the region can be attributed to several factors, most notably the severity of the downturn at the onset of the pandemic, the public policy response, and then generally weak demographic trends that we were already experiencing here in the region before the pandemic.

Prior to the pandemic, banks in the region had higher concentrations of commercial real estate or CRE than other parts of the country, with concentrations especially prevalent in the multi-family sector.

Banks in the New York region also showed less on balance sheet liquidity. So as a result, we have been focusing supervisory efforts on risk management practices related to both these areas on our exams, visits, and outreach events.

CRE is showing signs of recovery in the region, although at a slower pace than the rest of the country.

As many have mentioned, hotels continue to struggle in the major markets in the region, with overall performance well below U.S. levels despite a significant recovery as a result of the pace of vaccinations, the warmer weather, and pent up demand.

Retail has seen significant recovery, though the recovery varies greatly by sector. The food and beverage category and e-retail are doing well, while restaurants, bars, and traditional retailers are still well below pre-pandemic levels.

So interesting data on the commuter side, just for the New York City area. Through the first week of April, it does provide us some insight into economic activity.

Subway ridership in the city is still 65 percent below prior levels, bus ridership 50 percent below, and ridership on the two major commuter train services is 70 percent below prior levels.

But we have seen an increase in bridge and tunnel traffic that's significantly closer to prior levels, but we think some of that is offset from rail commuters taking advantage of lower traffic into the city.

The office space sector remains subject to uncertainty surrounding long-term trends and the acceptance of the distributed workforce model.

As the commuter data I mentioned indicates, work from home is still significantly affecting the region in general and New York City more specifically, with occupancy levels well below national levels.

On the multi-family front, data for cities like Baltimore, Hartford, Philadelphia, and Pittsburgh continue to show generally favorable dynamics, while major markets like New York City, Boston, and Washington, D.C. are forecast to lag regional and national performance.

Rental payment metrics show some strain. Renters behind on rent in New York City and Philadelphia are above national levels, while the numbers are more favorable in Boston and Washington, D.C.

I know we talked quite a bit about residential real estate. So in the region, strong home price gains continue.

Regionally, the northeast was the only major region to see a notable divergence in home sales between urban and suburban markets, with New York and New Jersey suburban markets causing most of the divergence, as we continue to see out migration from some of our larger cities.

Real quick on banking conditions, in general, as Kristie said in her opening remarks, banks in the region entered the pandemic at overall strong condition with increasing levels of capital, strong asset quality, and satisfactory risk management practices and compliance management systems.

Banks have seen earnings negatively affected by the pandemic with strong growth in deposits that have increased balance sheets while loan yields have fallen.

In addition, banks have increase provisions to account for the expected increase in credit losses due to economic weaknesses.

Banks in the region were also very active in PPP, which did help earnings, did help offset some earnings pressure.

I mentioned liquidity in the region prior to the pandemic. So median deposit growth in the region significantly outpaced the national rates.

We saw 23 percent growth in the region versus 17 percent nationally, while loan growth was only up about 7 percent, and only slightly above the national trend.

The positive there is that liquid assets did increase at a faster rate in the region than the nation. Again, as I mentioned, the New York region quickly had run with lower levels of liquidity.

The overall loan delinquency rate increased slightly but it ended 2020 just below the national rate.

CRE loan delinquency rate also increased slightly and also ended just above the national rate. But it still remains historically low.

Deferral and forbearance activity continues to decline. We're still seeing some of it, but it's declined quite a bit.

And we are seeing some watch list movement down the credit rating scale at our institutions, but we're not seeing material downgrades or declines in asset quality at this point.

We're also not seeing material downgrades or two component or composite ratings on the safety and soundness side, but along with asset quality, we'll continue to keep an eye on earnings performance.

We also saw few changes in compliance

and CRA ratings. Banks continue to do a good job meeting the needs of their customers and communities in complying with consumer protection laws.

At the outset of the pandemic, we did see some uptick in branch closings across the region.

That seems to have moderated somewhat. And we also didn't see or are not seeing a significant increase in consumer complaints.

So really in some way, the initial outbreak had a significant impact on the region and we continue to see that impact in industry metrics for some asset classes.

Liquidity levels on average have improved across the region while earnings remain a challenge.

And as noted, banks in general in the New York region entered the period of economic uncertainty with favorable financial metrics and satisfactory risk management and compliance programs.

So I don't know if Kristie is able to get back on.

MS. KEA: Frank, I think I just saw Kristie's camera on a moment ago. So, Kristie, if you are on, would you please join us? Thank you, Frank.

MS. ELMQUIST: Hi, can you hear me now?

MS. KEA: We can, Kristie. Thank you. Please go ahead.

MS. ELMQUIST: Perfect. I'll try to be (video interference) to compliment banks in the Dallas region, not only for being resilient during the (video interference) but also as they (video interference) during the hurricane season and then an unprecedented storm event that hit us in mid-February.

And as Shayna and many of the bankers have already talked about, the (video interference) in the Dallas region, the recovery is doing well, led by states that have a concentration in manufacturing.

So we have recovered at least our jobs and many of our sectors are doing (video interference) including housing, agriculture, and energy has rebounded as well.

We do still have some challenges and uncertainty with commercial real estate, and that's important to us because a good number of our (video interference) institutions in the Dallas region do have a -- or we are really paying attention to some potential challenges (video interference) particularly convention space in (video interference) areas, as well as office vacancy rates.

We do have some markets that are at the high end as well as high volume of construction in process. So we'll be watching that pretty closely.

For the bank, our banks were really well positioned going into the pandemic, and (video interference) have demonstrated resiliency and the ability to (video interference) from a financial performance perspective, we have observed shifts in the balance sheet due to the high growth in deposits, mainly because of the PPP lending as well as mortgage lending.

Composite rating, last year we conducted over (video interference) risk management (video interference) to the composite rating.

That said, we have seen some liquidity ratings (video interference) to a better rating, increase in liquidity levels, but also notable improvements in funds management practices (video interference).

On the flip side, we have seen some (video interference), but again, not in very many of our examinations.

Our (video interference) component ratings are remaining relative to deferrals, but that's because I think our banks have done a very good job (video interference) --

MS. KEA: Kristie, this is Arleas. Pardon the interruption. We were hearing you fine and now all of a sudden we're hearing just bits and pieces. Could you check --

MS. ELMQUIST: Am I cutting out again?

MS. KEA: Yes, you're cutting out. I think that we are getting the gist of much of what you're saying, but it's cutting out more and more at this point. Are you able to make any adjustment to your audio settings?

MS. ELMQUIST: Can you hear me now? I can just --

MS. KEA: It's very choppy, and in fact, Kristie, we're not -- we're hearing every other word.

MS. ELMQUIST: I can try changing audio to the phone connection.

MS. KEA: You could just try that quickly.

MS. ELMQUIST: I guess since I'm at the end, should we just move on? I hate to --

MS. KEA: Hearing you fine now. Go ahead. We're hearing you. Well, I thought we were. Kristie?

MS. ELMQUIST: Can you hear me?

MS. KEA: Yes. Now I think you're cutting out. Let me make this suggestion. Let us pause and let's see if any of the members have any questions.

And you might be able to, as you're making some adjustments, and I'll ask the staff to call you or chat with you as you're making some adjustments.

Let us see if any of the members have any questions based on what they've heard thus far.

To the members, any questions or comments? You can either raise your hand or you can simply turn your camera on. And I'm just checking the chat.

I'm not seeing any raised hands. And it could be that everybody is really ready for a comfort break.

We are at 3:09. Let us do this. Let's take a 10-minute break. So let us come back just shortly before 3:15, if you would, and I'll turn it over to Shannon at this time.

Shannon, would you please give us instructions for the break?

Shannon could be talking to Kristie. So let us break now for 10 minutes. We'll come back right, well, I said 10 minutes but, let us come back at about, why don't we say 3:20?

(Whereupon, the foregoing matter went off the record at 3:10 p.m. and went back on the record at 3:20 p.m.)

MS. KEA: Shannon, thank you very much. Hello, everyone, and welcome back from the break. Despite all of the slight difficulties that we've had, I think that we are all doing very good in terms of the meeting.

So I appreciate everyone's patience and cooperation. Thank you very much.

So I think that we are live now, Shannon. Thank you very much. We'll go ahead and get started.

I'm sorry about the problems that we've had a little bit earlier in the meeting, but I think that we will still find time to make sure that you all get the interaction that you need as we move forward in the agenda.

I'd like to share now that on yesterday, we had a meeting of the Minority Depository Institution Subcommittee, and I do want to express my great appreciation to Gilbert Narvaez, Jr.

You heard from him earlier. He serves on both this committee and the MDI committee. Gilbert and Betty, FDIC's National Director of Minority and Community Development Banking, are going to provide us with an update on yesterday's meeting.

I think that they will briefly summarize key points from the MDI subcommittee meeting, which will include updates on the Mission Driven Bank Fund, the FDIC's implementation of the U.S. Treasury's Emergency Capital Investment Program, as well as our FDIC MDI program.

So at this time, I'd like to turn it over to Betty Rudolph and then Gilbert Narvaez.

Thank you.

MS. RUDOLPH: Thank you, Arleas. I wanted to briefly remind the committee that the FDIC established the MDI subcommittee under the authority of the Advisory Community on Community Banking, the CBAC, and the Federal Advisory Committee Act, FACA, requires that the subcommittees provide advisory recommendations to the agency, to the parent committee.

So therefore, the MDI subcommittee actually reports directly to the CBAC to all of you and not to the FDIC. So that's why we're reporting to you today.

There are three goals for the MDI subcommittee, and they include serving as a source of feedback for the FDIC on strategies to fulfill our statutory goals to preserve and promote minority depository institutions, to provide a platform for MDIs to promote collaboration, partnerships, and best practices, and to identify ways to highlight the work of MDIs in their communities.

The MDI subcommittee is comprised of nine executives representing a diversity of types of MDIs, including African American, Hispanic, Asian and Native American Banks, and a range of business models, size, and geographic mix.

The nine members of the MDI subcommittee represent about 10 percent of all 95 MDIs that the FDIC supervises.

In addition, there are three MDIs represented on the CBAC and you heard from them today, Kenneth Kelly of First Independence Bank in Detroit, Michigan, Andrew West with Eagle Bank in Polson, Montana, and Gilbert Narvaez, Jr., with Falcon International Bank in Laredo, Texas.

So at this time, the MDI subcommittee doesn't have any recommendations for the FDIC, but we do want to share a brief summary of our discussions yesterday.

And I'll turn it over now to Gilbert who will walk you through these updates.

MR. NARVAEZ: Thank you, Betty. During the roundtable, each MDI banker discussed current banking conditions and unique issues facing their institution.

And interestingly enough, we heard a lot of the same conditions, themes, and issues that some of the institutions are facing after this morning's reports.

Many bankers discussed their cautious optimism about the pandemic and the economic outlook over the near to medium term.

Some general themes bankers reported included abundant liquidity due to government stimulus programs, pressure on net interest margins, some dampened loan demand, continued PPP funding and forgiveness, and in some cases, low housing inventories and higher construction costs.

Also at each MDI subcommittee meeting, there is an MDI spotlight segment to showcase the work of an MDI or a group of MDIs.

The MDI spotlight explores best practices or lessons learned that might be insightful for other MDIs.

Yesterday, we heard from Robert James II, who is the Director of Strategic Initiatives and board member of Carver State Bank in Savannah, Georgia.

Mr. James discussed collaboration best practices by a group of 12 black MDIs that came together to syndicate a $35 million loan to refinance the Atlanta Hawk's Emory Sports Medicine Complex.

Mr. James also serves as chairman of the National Bankers Association, and he spoke about the MDI trade organization's emphasis on collaboration. So that was a very interesting presentation.

We also heard an update on the formation of the Mission Driven Bank Fund. The FDIC hired a financial advisor and two law firms to develop the framework, structure, and concept of the operations of this fund that will provide investments in about 250 eligible FDIC-insured MDIs and community development financial institutions.

The fund is designed to generate funds from corporate, philanthropic, and bank investors into MDIs and CFIs to support growth and to serve the communities.

Earlier this year, each of the nine executives of the MDI subcommittee and about 70 executives of MDIs and CFIs in total, had the opportunity to provide their input regarding the needs of the mission driven banking sector.

Yesterday, we had the opportunity to review the work of the financial advisor and law firms. The presentation included several aspects that I'll briefly summarize.

One was the fund design consideration, including how the fund manager will balance the needs of the investors and mission driven banks.

Another was the investing universe and the types of asset classes the fund will consider. The conceptual portfolio design, how the investments will be sourced. And the proposed fund governments in terms of the fund.

The next steps in the stand up of the

fund, including the hiring by investors of the fund manager.

Another note is that the subcommittee had a briefing on the regulatory aspects of the U.S. Treasury's Emergency Capital Investment Program.

Since our last meeting, Congress appropriated approximately $9 billion for treasury investments in FDIC-insured MDIs and CDFIs and credit unions that source minority and low to moderate income neighborhoods that were disproportionately affected by COVID-19 pandemic.

The Treasury has issued a rule outlining the program and banks are currently submitting applications.

Currently, we have an update on the recent MDI program initiatives. In early March, the FDIC hosted a webinar for MDIs that are not already CDFIs.

Congress recently provided $3 billion for CDFIs that are serving minority and low-income communities that were disproportionately affected by COVID-19 pandemic.

Of this amount, $1.2 billion is set aside for CDFIs that are minority lending institutions.

The FDIC conducted a webinar to help MDIs understand the requirements for becoming a CDFI an accessing CDFI fund financial assistance programs.

The webinar was well attended and received very positive feedback.

Tomorrow, the FDIC will host an interagency webinar to demonstrate a new tool for MDIs and CDFIs to estimate the impact of the capital ratios of new investments coming into the mission driven bank sector.

These new investments include millions of dollars of direct investment from large financial institutions, the new Treasury ECIP Investment Program, the CDI grant funds, and other potential sources of funds.

The capital estimator tool will enable mission driven banks to create various scenarios to estimate the impact of new funding on various capital ratios.

Finally, FDIC also updated us on training that they are developing for examiners. The training supports the FDIC's proposed statement of policy regarding minority deposit institutions that was issued for public comment last year.

That policy restates interagency examination standards that require examiners to recognize the distinctive characteristics and core objectives of each financial institution and to consider those unique factors when evaluating the institution's financial condition and risk management practices.

This includes taking into account the size and sophistication and the nature and complexity of the business activities and risk profile of each institution.

This concludes the report from the MDI subcommittee, and Betty and welcome any questions that you have.

MS. KEA: Let us just pause for a moment in case there are some questions, especially for our new members.

This is a very important subcommittee, and we're happy that Gilbert and Betty were able to report out to you this afternoon on our meeting yesterday.

Are there any questions or comments? I don't see any hands raised in the chat. If anyone would just simply like to turn their camera on and jump in, that would be fine, also.

Okay, Betty and Gilbert, thank you very much. I would like to move on in our agenda. One of the other consistent topics that many of you talked about involved technology, dealing with the fintechs.

And we're very fortunate to have FDIC's recently appoint Chief Innovation Officer Sultan Meghji with us this afternoon.

Sultan is a recognized expert in financial technology and he joined us, I think, Sultan, it was just about two months ago.

But he's going to talk about what you can expect to see going forward with regard to technology and innovation here at the FDIC. Sultan, you have the camera.

MR. MEGHJI: Thank you so much, Arleas. It's great to be here and thank you so much for the invitation and the opportunity to stick in and listen on and off throughout the day as I've been able to. This is absolutely fantastic.

For those on the committee I haven't met yet, it's great to meet you and I encourage all of you to reach out to me at your convenience. I'd love to find time to chat with each of you.

As Arleas said, I think Thursday is officially my two-month anniversary here. And I've gotten a lot of questions about joining and everything.

And I thought it'd be useful to spend a few seconds just mentioning why I'm in banking at all and why the FDIC, which is the, I grew up in a cornfield in the middle of Illinois.

And it's that small town sense of community that's anchored by the local community bank that really drew me in initially.

And I have these great memories of walking to the local diner to get pie with my grandfather and I would walk by the bank. And it was a key, integral part of the community.

Now, obviously, the old Main Street ideals of decades ago, far too many decades ago for me, anyway, are changing a little bit.

And as we think about that change, the ability to come into FDIC right now and sit in this new role was an opportunity I couldn't pass up.

And so let me talk a little bit about what's been going on and what you're going to start hearing more and more for us.

And the first thing I'd say is, I, of course, am very happy to take any questions, so please throw any into the chat or be prepared or raise your hand and we'll get to it at the end of my little speech here.

But one of the biggest things in talking to the chairman and going on my listening tour where I spoke to a number of bankers, I spoke to people throughout the ecosystem, was a couple of things.

Number one is that American competitiveness is something that we want to protect and expend, and that we want to do it in an inclusive way.

We want to open the door to thoughtful innovation. We want to be able to let the new technologies in, but do it in a thoughtful way.

We wanted to make things easier for people, not harder. And we wanted to have a view to the future.

And we've come up with a couple themes that you'll hear those of us here at FDIC speak a little bit more about, but I'm happy to summarize them for you.

The first is around inclusion. We need to build an inclusive, diverse, and equitable future of banking here in the United States.

And that's not just at the consumer level, although there's a tremendous amount we can do there. And I think you guys, most of you saw the recent bank initiative, which has been a really great first step, and there's more to come in that area.

But also inclusivity from the perspective of minority women owned businesses. Small businesses are the backbone of this country and it's a wonderful opportunity for us to help leverage that amazing capability and do more for them.

The second is around resilience, and whether or not we're talking about things like the SolarWinds hacks or the Microsoft hacks or the pressures against the system from unregulated entities or the increased competition from the big banks, we need to build into this ecosystem a more resilient capability set.

And that's everything from

cybersecurity to availability to interoperability and standards.

I'm sure those, some of you remember last year, we put out an RFI on a standards setting organization and that work continues as well.

But we really do need to get to a point where we are engineering for resilience. We have to make sure that we're being thoughtful about this.

And it's everything from the due diligence of third-party fintechs to understanding the technical debt that exists inside the banking sector and what we can do to help clean that up.

The third one is around amplification. I've spent a lot of time inside of community banks and some of them very small.

It's just four or five people. And everybody's kind of wearing a bunch of different hats.

But one thing I've noticed is that a

lot of people are fighting the process, they're fighting technology, they're fighting their regulatory requirements.

And instead of being bankers and being amazing at that, they're fighting an Excel spreadsheet.

Now I get inside of FDIC and I see the exact same thing. I see amazing people throughout the organization, economists, examiners, people from our technology organization, our legal division, policy, and there's all this friction in their daily lives.

And so I think it's important for us, if we have all these amazing experts throughout the ecosystem, they should be spending (video interference) of every hour being an expert.

And then finally, we have to protect the future. And here's where I come back to my comment about American competitiveness globally.

In the face of an ascending People's Republic of China, in the face of massive global competition, in the face of competition from traditionally non-competitive sectors of the U.S. economy, the American banking system has never been under more pressure than it is currently under. And there's an amazing opportunity.

And again, you'll hear me say this, an opportunity for us to build a banking system of the future that exceeded what we could do in the 20th century, American power both domestically and globally in the 20th century sat on the back of our economic system, sat on the back of free market capitalism, and sat on the back of our banks.

If we're going to be the number one country in the 21st century, we have to reinvest in that. We have to refocus on that.

And that's what I want to do. I want to protect the future, whether or not it's against foreign actors or whether or not it's continuing to ensure that our banks are offering the best products and services, or if Mr. Musk gets that bank on Mars that he wants.

That bank will still have to

interoperate with our system. And we want to make sure there's a way for that to work, a thoughtful, seamless, safe, and secure way.

And we want to do all this while fundamentally being more efficient. So we have a lot of work to do.

And as we go through this year and next year, you'll start seeing a bunch of different programs around these four themes that I've discussed.

We've already got a lot of great work going on internally. We're starting to touch some places where we're trying to enhance some of the cybersecurity standards and work on finding ways to create new opportunities to work together. And you'll see more and more of that as we go through the year.

But most importantly, I wanted to make sure you all heard about our email address, innovation@fdic.gov.

This is an opportunity for us to kind of preach to the choir. If we're going to be open and transparent, here's how you do it.

That email hits my inbox. So please do, if you have thoughts, ideas, want to engage with us, please do reach out. We would love to hear from you.

And so with that, I don't have anything else specifically to add here, but I will pause for a moment and see if there are any questions.

I don't see any, but very happy to take any if there are any. Otherwise, I will turn it back over to Arleas.

MS. ANDERSON: I have a question.

MS. KEA: Okay, let's take a moment. Yes, go ahead.

MS. ANDERSON: Hi, I'm Shaza Anderson, Trust Star Bank, and my question is really more generic.

You probably all have read that the OCC has approved the first fintech company to have a banking charter.

And I'm not really sure yet how it's

going to affect us, how it's going to affect the FDIC, or banking in general.

Do you have any sort of thoughts on that? It's been something that we've been bombarded with all these fintech companies. There's one every day, it seems like.

But to get an approval from the OCC, would that be FDIC insurance? I mean, it's a charter, it's a banking charter. So tell me a little bit about your thoughts.

MR. MEGHJI: Well, first off, I can only speak for myself and the FDIC. I can't really speak to the OCC at all. And certainly, some of the different things they are doing are far outside my purview.

But I will say I'm a big fan of innovation. I'm a big fan of innovation in the banking sector.

And we see across FDIC insured institutions tremendous innovation. In some cases, the bank is just being innovated.

In some cases, they're partnering with

fintechs, of which there are many thousands. Make no mistake.

And in some cases, it's banks working together. And I'm a big fan of that. I like seeing entities that are what I call regulatory forward.

They're engaging with groups like us early and often and finding ways to work inside of the system instead of just ignoring this and just doing whatever they feel like and kind of lone wolfing it out there.

So all I can say is I encourage greatly people to work with us. I hope we can continue to do that.

And I look forward to seeing what innovations all of you come up with. They get me excited.

MS. ANDERSON: Thank you.

MR. MEGHJI: Thank you. Arleas, back you.

MR. PITKIN: Actually, Sultan, Mark Pitkin from Sugar River Bank. If you don't mind me, just a comment and a question.

So coming from the first community bank that partnered with Lending Club, who is the largest unsecured lender in the nation many, many years ago, I am very pleased to see sort of the openness toward banks now working with these fintechs, because I can assure you that back then, there wasn't the openness and transparencies with banks sort of going outside of the box.

But we profess, certainly as a smaller community bank in an area that didn't have a whole lot of population growth, that we had to look at different areas of innovation in order to be sustainable and survive.

So we have certainly come full circle with regards to do that. So I guess my question is, what are you and/or what is the FDIC doing to sort of pass your energy, your openness, and your transparency for banks thinking out of the box when it comes to examiners that come in our doors and we are sharing certain things?

Is that something that is being passed down? Because if that is the case, having an open mind is going to be incredibly refreshing when banks are doing these things that you find are very helpful, thought provoking, and necessary in the future.

MR. MEGHJI: Yes, that is such a great question, Mark. And you know what I've discovered in my time in this industry is that some of the most interesting innovations, the most thoughtful dialogs I've had have not been from the biggest banks out there.

It's been from the community banks that are, you've got guys dirty fingernails on the street trying to sell a loan or something like that and you guys are thinking of new and interesting ways of making that case.

So I'm, A, not surprised to hear what you just said, and B, excited to hear it.

Two days shy of my two-month anniversary, there's only so much megaphone I've been able to cover thus far, but you'll certainly see a lot more of that.

Tomorrow, you'll see the first in a series of new podcasts where I interview the chairman, where we have an entirely unscripted discussion, a very open and transparent one, I might add, about innovation.

You'll hear us talking about some of the things I've already said today. But you'll get to hear from her directly.

I've done three speeches today. I met with two members of Congress today. And that's kind of a normal day for me. So there's a lot of this going on. So that's number one.

Number two, you're going to see a lot of what I call programmatic functions. So what does that mean?

It means everything from tech springs to opening up to RFIs and anything we can think of.

And I certainly encourage anyone hearing my voice right now, if you've got an idea, I want to hear about it.

And then third is, FDIC is approximately 6,000 employees across the country and there's going to take a little bit of time for us to get all the messages across and the interview across.

So I would beg a little bit of patience. But you don't bring a guy with nearly 30 years of private sector experience building companies and transforming large institutions from his own startups to large public equities, infrastructures, in here to have me sit on my hands. So don't be surprised when you hear more.

MR. PITKIN: Thank you.

MR. MEGHJI: Thank you.

MS. KEA: Sultan, we have just a couple more questions. First, Neil McCurry and then Steve Hayes.

MR. MCCURRY: Hi, Sultan. Neil McCurry in Sarasota, Florida. First, welcome to the FDIC. Your enthusiasm is refreshing on this area.

And I'm a big fan of the concept of

technology, but I want to get your thoughts on what really keeps me up at night when I think about banking. And I best describe that with a short story I've shared with our shareholders.

In the year 2000, we were introducing internet banking, which was revolutionary at the time.

And I told everybody how great it is, but I said be careful because right now there's a 14-year-old kid living in a basement in Europe and he's trying to hack into your system.

So you have to be careful with it. That was 20-plus years ago. I recently said that story again.

I said, the difference is that 14-year-old is grown up and now works in a well-funded factory, maybe for some government that is trying to do detrimental things to our industry, our country, and our institutions.

We've seen core providers that have had meaningful, successful cyberattacks. I believe that a potential cyberattack on your bank very well could be death by a thousand cuts, when you look at the reputational risk and everything involved.

And as we speak right now, someone on this panel might be in the process of someone trying to hack into their system, and we might not know about that for months or a year from now.

So it's scary. So how do we adopt and innovate and embrace this technology, which ultimately relies on partnering with other organizations that are now susceptible because they have access to your systems? How do we protect ourselves against these very smart, well-funded groups?

And how do we do that in a collaboration as opposed to, ah, they got you? As opposed to, we're all in this together and making sure that our system is safe and is perceived to be safe by the customers in the country?

MR. MEGHJI: Well, Neil, it's a great

comment and question and I like the story, too. I relate to that.

I would say a few things. Number one is, we are all in this together. No one bank, no one regulator, no one member of our banking system stands alone.

It's not a bunch of islands. We're all part of a community and so we need to act that way.

I'll also say that cybersecurity, like innovation, is fundamentally not primarily a technology discussion.

It's people, it's processing, and it's technology. And so just like any well run bank has a top focused management program, which I'm sure everyone here who runs a bank has something like that, we need to extend the definition of that.

We need to make sure our people are trained. We need to make sure it's communicated, we need to make sure our processes are being evaluated and continually kind of poke that.

We are far past the time when you implement something, you put something in place and just leave it alone for years at a time.

The static mainframe system's view of the world doesn't exist anymore. That's just not how it works. Say, like, batch systems.

I've been very fortunate for the last few years to work on something called the Fin Cyber Program at the Carnegie Endowment for International Peace.

It's specifically talking about how to secure the global financial system. And we have a capacity building toolkit that included, one of the first things we put out there, and I share this because it's meaningful to your question, Neil, a communications and education program, because absolutely, from every significant shareholder to your board of directors to your C suite to the most junior person in your organization, cybersecurity is something that needs to be taken very seriously and it needs to be part of the ongoing discussion.

So that's kind of one comment. The second is, this is such a concern that you heard me talk about resilience as our second theme, and this is absolutely part of that, SolarWinds, the Microsoft hack, the various customized Ransomware technologies and Ransomware's a service that's out there right now.

These are all out there and I agree with you and I can also say I agree with Chairman Powell who thinks that cybersecurity is probably the greatest threat to our banking system.

So I can't say it more strongly than that.

MR. MCCURRY: Well, thank you for that comment. Prior to you joining us, Gilbert made some comments about the committee he's on for minority institution subcommittee, and I'd recommend the FDIC consider some type of subcommittee where a group of bankers across the country work with your group as a team to address these.

So everybody has different

perspectives on it, because ultimately, we all either fail or succeed together.

So I think that as much as we can look like we're joined together and talk and feel that it's not a bank and a regulator relationship, it's more of, we have to do this if we're going to survive.

And I think that there might be some merit to that idea. And maybe you can put some deliberation to that concept.

MR. MEGHJI: I think that's a fantastic idea, Neil, and I'm going to ask if you've hacked my email. Can I ask that we table that and we'll get back to you very quickly?

MR. MCCURRY: Fantastic.

MR. MEGHJI: Thanks so much, Neil.

MS. KEA: Great. That's great. So is Steve still on? And then PJ Wharton.

MR. HAYES: Can you hear me?

MR. MEGHJI: Yes.

MR. HAYES: Thank so much. I appreciate it. This is Steve Hayes from South

Dakota.

Earlier you made the comment about small banks fighting technology. And out here in South Dakota, we're probably, the majority of our banks are $50 million to $100 million, I suppose.

And I agree, rural communities, we need to wear several hats and we need to embrace technology, but what else are you hearing out there?

Is it these people are fighting, and you just made the comment, but is it due to the education component part of it or what?

And I'm just curious because I know that we face that out here as well. It's a comment or question, so --

MR. MEGHJI: Yeah, Steve, I was just about to ask. I'll say a couple of words and you tell me if it's useful, how's that?

So as I said, you talk about innovation in cybersecurity as being about people and processing and technology.

I think if you're going to be

implementing technology in a bank, you've got to think about all three of those.

You've got to not only make sure you're getting the right technology that's fit for purpose, that's kind of the right price point and the right kind of features and all that other good stuff, and also recognize that for, especially for smaller institutions, your technology expense in many cases are after your annual interest expense, the largest expense you've got.

And that's a big pill to swallow sometimes. So there's a financial component there that can't be ignored.

I would say, though, that investing in people is absolutely where I would start. So if you say, Sultan, you're running this $50 million, $100 million, $150 million bank, and just for background, I've been living in Missouri for a while now, so the kinds of banks you're talking about in South Dakota, I recognize that strongly.

And I would be investing in my people.

I would be making sure that they have the opportunities to hear about things like the Fin Cyber Program or continuing education and all of that.

I mean, that's a challenge we see facing the banking sector is hiring and recruiting great people, and technology is even the biggest one.

I mean, the second one is making sure that you're thinking about your processes. Your process that came from 20 years ago that pre-dates real time payments, you probably want to spend some time looking at that.

There are some amazing resources out there, whether it's other institutions or trade associations or a variety of other agencies and organizations that can support there.

And then the other one is, think about the strategy where you're taking the organization. I mean, if I was, if you said to me, Sultan, what tech should I use for problem X, I wouldn't know how to answer that until I understood what you were trying to do with your organization, what you're trying to do. There is no one size fits all anymore.

MR. HAYES: Okay. Great. Thank you.

MR. MEGHJI: Good. Fantastic.

MS. KEA: Let's go to PJ.

MR. WHARTON: Sultan, PJ Wharton, Yampa Valley Bank in Steamboat Springs, Colorado. Yes, I think for most of us, going through COVID, we've all faced the reality that technology, tech is no longer a luxury but a requirement.

And with that, many of us are members of Independent Community Bankers of America. With what we went through and seeing when our core provider was down the first business day in January and I didn't have remote deposit capture and I didn't have my ATM and I didn't have online bill pay, we had lines around the bank.

As a result, I participated in the ICBA Thinktech Accelerator Program, which is in the great state of Arkansas, Margaret's home state, the ICBA.

My question is, do you have any interaction with our friends at Independent Community Bankers of America?

Again, the Thinktech Accelerator is an amazing program where by volunteering you are able to see up to 12 companies in a single day making their pitch.

And I think it'd be great if there was interaction between the FDIC and the ICBA as it relates to this vital program.

So I was just curios if you've had interaction yet and what your impression is.

MR. MEGHJI: I have. In fact, I spoke at the event a few weeks ago. So, yes, I have. There are a number of amazing resources out there, whether it's fraternity associations or others.

But no, it's fantastic. You're absolutely right. It is no longer optional.

MR. WHARTON: Thank you.

MS. KEA: We have a few more minutes if there are other questions or thoughts. And in the meantime, Sultan, I think your email is innovation@fdic.gov. We want to make sure everybody takes that away.

MR. MEGHJI: Yes.

MS. KEA: I think I see, did I see another hand go up? Let me just double check. Actually, I don't see any more hands.

But I think everybody would say, Sultan, that this is the beginning of a very long conversation that will continue to go on.

So we just thank you very much. There will be many more opportunities. We appreciate the recommendations that have come out of this talk.

And I'm sure that the members will be hearing more from you and from us at the FDIC around this. So, Sultan, thank you so very much.

MR. MEGHJI: Thank you, Arleas, and thank you to the members for having me here today. I look forward to continuing to engage with you.

MS. KEA: Thank you, Sultan. So next,

what we'd like to do on the agenda is to provide you all with a few supervisory matter updates.

And we do have with us today from the Division of Risk Management Supervision, our Director, Doreen Eberley.

And she's joined by Rae-Ann Miller, who is our Senior Deputy Director of Supervisory Examinations, as well as John Vogel, who is Deputy Director for Operations.

And then they are joined by Chris Finnegan, who is from the Division of Depositor and Consumer Protection.

And Chris serves as the acting Deputy Director of Compliance and CRA Examinations.

So for Doreen and the team, I'd like to turn it over to you.

MS. EBERLEY: Okay, thanks so much, Arleas. Well, we do have a number of topics to cover during our supervision panel today, including an overview of our supervisory response to the pandemic, an overview of the broker deposit and interest rate restriction fund, and an introduction to our streamlined consumer compliance examination pilot program.

John Vogel and I will start us off with an overview of the FDIC supervisory response to the pandemic.

And on the slide here, we've provided a link to a short video that appears on FDIC.gov that I would encourage you to take a look at after the meeting.

Within days of the declaration of the pandemic by the World Health Organization, we encouraged financial institutions to work with their customers and communities affected by COVID-19 and we provided them the flexibility to do so.

Specifically, we stated that an institution's prudent efforts to modify terms on existing loans for affected customers would not be subject to examiner criticism, and we committed to working with affected financial institutions to reduce burden when scheduling exams.

We also established a dedicated coronavirus webpage to house our relevant guidance, rule makings, and answers to questions frequently asked by bankers and consumers, and that's where you'll find that video that I just mentioned.

Couple of weeks later, we clarified that certain loan modifications made in response to COVID-19 are not troubled debt restructurings.

We provided flexibility to enable mortgage servicers to work with struggling consumers.

We also made it easier for banks to make home equity accessible to consumers by allowing for delayed receipt of appraisals and clarifying that interior inspections are not required.

We encouraged institutions to use their capital and liquidity buffers to support small businesses and households, and community banks delivered, playing an outsized role in pandemic-related government stimulus program, like the Paycheck Protection Program, or PPP.

As of the second quarter of 2020, community banks held a significant 31 percent of all PPP loans, compared to 12 percent of total industry assets and 15 percent of total industry loans. Talk about punching above your weight.

We've supported banks' participation in PPP by arranging webinars for the SBA to answer bankers' questions, by posting responses to the most frequently asked questions on our coronavirus webpage, and by providing regulatory clarifications and temporary regulatory relief.

And we'll get to the question that was raised in the first session this morning about that temporary relief. We can cover that in the Q&A.

We moved all supervisory activities offsite. So that's another thing you mentioned earlier today, and we can talk about this in the Q&A as well.

For the first couple of weeks of the national emergency, we completely paused our examination program to give bankers flexibility, recognizing they were busy responding to the needs of their customers, employees, and families.

After that, we offered additional options to pause as needed. These pauses were well received and we were happy to provide the needed flexibility.

Even with these significant changes to our operations, we've maintained our supervisory programs for both safety and soundness in consumer protection, and we've continued to meet all associated statutory requirements and internal goals.

We were able to make the pivot to offsite work quickly because of both our prior efforts to leverage technology and examinations and because of your coordination and cooperation.

So let me take this opportunity to say thank you.

We increased our communication frequency, sharing updates on the guidance we were issuing and answering your questions.

And we used the feedback that regional directors shared from their regular meetings with state commissioners and trade associations to shape our policy response.

And because of that, we issued a number of rule makings and guidance statements to address temporary needs and to implement the CARES Act.

We provided, just as some highlights here on the slide, just a few of them.

We've included a link to our coronavirus webpage, where you'll find the FAQs and the pandemic-related guidance and rulemakings, including those listed here.

And I'll turn it over to John now to give you a more behind the scenes look at our conversion to offsite supervision. John?

MR. VOGEL: Thanks, Doreen. Prior to the pandemic, we had already been conducting a significant portion of our examination work offsite.

And because of that, we were able to pivot very quickly to our mandatory telework and were able to conduct our exams fully offsite.

We made sure that our team was equipped to work offsite, and we provided enhancements to the enterprise file exchange that facilitated the increased number and size of our electronic files.

The FDIC also provided employees flexibilities with their schedule to make accommodations for the increased or changing responsibilities that our team members had. Mike, next slide.

We also at the beginning of the pandemic initiated a number of our continuity planning protocols.

So to make sure that we had enough examiner hours to complete our examination work, we offered our examination team a leave buy-back, which was very successful.

And it allowed us to complete all of our exams on time, as many mentioned.

We hired additional entry-level staff for conducting loan review, and also to help on our IT exams.

We also rehired some of the folks that had previously retired to help us train our newly hired examiners in field offices where we had a high percentage of precommissioned examiners.

So, off to Rae-Ann, I think.

MS. MILLER: Thank you very much, John. Mike, can you go to the next slide, please? Sorry, guys, I'm having a hard time here.

So I'm going to talk to you guys about a few highlights and recent changes to our broker deposit regulations and rate restrictions.

It's important to remember that the restrictions on broker deposits and interest rates do not apply to well capitalized institutions.

It's also helpful to know that this regulation features a lot of changes. It's hard to do it justice in the brief time we have.

So I'm going to do my best to cover it. But I do encourage you to review the reg, the preamble, and we've also recently posted some Q&As.

And if you have questions about specific arrangements, you can submit them to our dedicated mailbox and Mike, we're going to stay on this slide for just a minute.

Our new regulations were approved by our board in December of last year. And it became effective on April 1, 2021.

We also provided what we call a full compliance date, and that runs through year-end 2021.

And the purpose for this full compliance date was to allow for those who are relying on existing staff advisory opinions and FAQs time to change their documents and systems to comply with the new rule.

So after January 1, 2022, those past staff opinions and the FAQs will be moved to inactive status.

We will also point out that with the April 1 effective date of the new regulations, banks are going to begin to report changes with the way deposits are categorized in fall reports in the June filings.

The call is for interagency, and there is an interagency process underway to update those instructions now.

So if you could please move to the next slide, Mike.

So this slide summarizes section 29, requirements, section 29 of the FDI Act. And it really has a broad definition of what is a deposit broker.

And it's important to know that the law hasn't changed. And as a very high level summary of the restrictions that work in the law, remember that well capitalized institutions are not subject to restrictions, as I mentioned, adequately capitalized banks have to apply to the FDIC for a waiver to accept broker deposits, undercapitalized banks cannot accept broker deposits, and in addition, banks that are less than well capitalized are limited in the interest rates that they can offer on deposits.

So all of these restrictions remain in effect, but you're going to see in the next few slides, we've changed some interpretations of the law. So please move to the next slide.

So as you know, broker deposit is a deposit received from or facilitated by a deposit broker.

So we begin our analysis with determining who is a deposit broker. And we made some revisions there.

A deposit broker analysis is now based on the relationship between the person placing or facilitating the placement of the deposit and its customer, not the relationship between the person and the IDI.

And under the revised rule, if an entity has an exclusive deposit arrangement with only one bank, including one affiliate, and is not placing or facilitating the placement of deposits at any other bank, it is not a deposit broker.

However, if the entity has a deposit arrangement with more than one bank, the entity is a deposit broker unless it's excluded under other parts of the definition of deposit broker.

If the entity has an exclusive deposit arrangement for one business line with one bank or places deposits at other banks in another business line, it is also a deposit broker, but may be eligible for a Primary Purpose Exception. I'm going to discuss that in a few slides.

And if an entity uses multiple entities, placing deposits at different banks in an effort to evade this rule, it will be classified as deposit broker.

So another change in the deposit broker analysis is that to be a deposit broker, the person must have a business relationship with its customers and be engaged in the business of placing or facilitating the placement of deposits as part of that relationship.

So the FDIC is no longer focusing on the relationship between the third party and the bank.

So even if the bank is paying the third party, that's not necessarily indicative, that reason alone, that would cause the deposits to be broker.

So the revised rule now defines facilitating the placement of deposits. And a person is facilitating the placement of deposits if the person has legal authority, contractual or otherwise, to close the account or move the customer's funds to another bank, the person is involved in negotiation or setting rates, fees, terms, or conditions for one or more specific deposit account, but that doesn't including marketing or consulting services that help a bank determine rates that are applicable to deposit accounts generally, and then the third prong is that the person engages in matchmaking.

Matchmaking is defined as proposing deposit allocations at or between banks based upon both a particular deposit objective of a specific depositor and the particular deposit objective of specific banks.

And so matchmaking does not include deposits placed by a depositor's agent with a bank affiliate or with a depositor's agent, which would include depositors' subsidiaries, parents, and other affiliates.

Matchmaking also does not include third parties that provide administrative services as part of a deposit sweep program between a depositor broker/dealer and unaffiliated banks.

That is, a third party may assist in the placement of sweep deposits with unaffiliated banks, but does not propose deposit allocations.

So matchmaking does include an affiliated third party that meets a deposit broker definition that places deposits with assistance of another person engaging in matchmaking activities.

So for example, if a third party with

a Primary Purpose Exception sweeps deposits to unaffiliated banks, those sweep deposits would not be brokered if the same third party uses and intermediate that fits the definition of deposit broker to place the deposits at unaffiliated banks.

Excuse me. If the same third party uses an intermediary debt fix, the definition of deposit broker who placed deposits with unaffiliated banks, those deposits would be brokered.

So let's move to the next slide, please. Make sure I'm on the same slide here. Yes. Thank you, Mike.

So we're going to talk about the Primary Purpose Exception. We call this the PPE. So in the law, there are still nine statutory exceptions. And we created one regulatory exception to the definition of a deposit broker some time ago.

So the new rule has only affected interpretation of the statutory Primary Purpose

Exception.

And so remember that the Primary Purpose Exception is only applicable if an entity fits the definition of a deposit broker and no other regulatory (video interference) applies.

So by the statute, a Primary Purpose Exception is only permitted when the primary purpose of the agent or nominee's business relationship with its customer is not a placement of fund with depository institutions.

So under the revised rule, the PPE is applied separately to each business line, and the rule now includes a list of designated exceptions, we created that terminology, that automatically will receive PPE.

So as you see on this slide, for two of the designated exceptions for PPE. The rule has created new notice process.

And so an entity should submit a notice if the entity wants to provide a PPE, either under the designated exceptions, 25 percent of assets test, or the enabling transactions test.

So the 25 percent of assets test designated exception is applicable to an entity that has less than 25 percent of its total assets, if the agent or nominee has an under administration towards customers placed at depository institutions.

For example, a broker/dealer's sweep programs may qualify. And entities qualifying under this exception are required to submit quarterly reports to demonstrate that they continue to qualify for the PPE.

Now, the enabling transaction test is the other designated exception that requires a notice.

This test, this exception applies to entities for which 100 percent of the depositor's funds that the agent or nominee places or assists in placing at depository institutions, are placed into transactional accounts that do not pay any fees, interest, or other remuneration to the deposit.

For example, accounts set up by prepaid card program managers may qualify for these enabling transactions exceptions.

Entities qualifying under this exemption are required to submit annual certifications. Now, please move to the next slide.

So this slide shows the other designated exceptions, and these don't require a notice and would not be considered brokered so long as a third party is not involved in placing the deposits.

It's important to know that if an entity does not fit one of these PPE designated exceptions we just talked about in these two slides, it may file an application seeking to obtain a PPE.

For example, a situation where placement of deposits does not fit the enabling transactions designated exception, because the bank pays interest to the underlying depositor, in this case the third party or bank on behalf of a third party, could submit an application if it wanted to rely on the PPE designations.

Two more things I wanted to talk about before I move to interest rate restrictions that are application for less than well capitalized banks.

There is a lot of information here, and we would refer you to our website for the notice and application filing procedures.

We debuted a new website on April 1, and we're also working on a more streamlined process for the notices and applications.

And I wanted to note that the changes in the regulations do not impact broker's fees. They are still brokered.

The rules also do not change our supervisory process. It is true that the changes in the regulation may mean that some deposits that are currently reported as brokered will not be reported as brokered going forward.

But examiners will still review the funding structured banks to the extent there's concerns, including concentrations concerns. They will be noted as part of the supervisory process.

And the rule also doesn't affect our enforcement authorities under section 8 or section 39 of the FDI Act.

Now, let's go to the next slide, and we'll talk a little bit about the interest rate restrictions that are applicable for less than well capitalized banks.

So the revised rule also changed the interest rate restrictions. We also created a new section of our regulations, 337.7, and split out the broker deposits from the interest rate restrictions.

The first change is to the national rate. So the national rate has changed based on market share versus branches, and now includes credit unions in the calculation.

The national rate cap has also changed. So for CDs and other deposits with a maturity date, the national rate cap is the higher of, one, the national rate of 75 basis points or the U.S. Treasury security rate (video interference) plus 75 basis points.

For non-maturity products, the weight cap is now the higher of the national rate plus 75 basis points or the Fed Funds rate plus 75 basis points.

So let's move to the next slide, and this slide is dealing with the local rate. I would say first of all, we anticipate that far fewer institutions have become less than well capitalized that will rely on the local rate because the national rate is intended to be much more flexible.

But the FDIC simplified the process for banks that do wish to use a local rate. So banks will no longer have to request and the addressee will no longer make high rate determinations.

And banks won't need to calculate averages from all IDIs in their market area and calculate a local rate cap.

Instead, as a local rate, the bank can offer up to 90 percent of the rate of another IDI with a physical presence in its market area is offering for local deposits.

As part of this local rate determination, the bank must notify their regional office that it's using a local rate, needs to recalculate the local rates monthly, and maintain records for at least two examination cycles as part of a regulation.

So moving to the next slide, just a point that another change affecting both national and local rates is that interpolation or extrapolation of rates for off-tenor maturities is no longer needed.

If there is no national rate posted and no local rate with the same maturity, the bank by regulation is required to use the next lower posted or offered maturity.

So moving to the next slide, I'll just cover this quickly. This is our reminder that the rate caps are not applicable to less than well capitalized banks.

And moving to the first slide talking about non-maturity deposits. So the revised rule clarified restrictions related to the treatment of non-maturity deposits, which non-maturity deposits were contemplated when the law was written.

And under the law, remember that a less than well capitalized institution may not solicit deposits by offering a rate above its rate cap or accepting broker deposits.

So for non-maturity deposits, the rule clarified that an institution solicits a non-maturity deposit when it opens a non-maturity account, raises the rate paid on a non-maturity account existing when the institutions was last well capitalized, or credits funds for a new depositor for a non-maturity account existing when the IDI was last well capitalized.

So moving on to the next slide. This is talking about accepting. So an IDI that is less than well capitalized accepts a non-maturity broker deposit from a particular deposit broker when they're opening any new account, non-maturity account, when the account balance exceeds the account balance at the time the institution was last well capitalized.

And then for agency or nominee accounts, when the institution credits any funds for a new depositor to a non-maturity account.

So let's move to the next slide. This is talking about institutions with a waiver. A less than well capitalized institution with a waiver to accept broker deposits may not pay interest in excess of the appropriate rate cap.

Again, for particular deposit broker on any new non-maturity accounts or for any amount of funds exceeding the account balance at the time the institution fell to less than well capitalized.

And then for agency and nominee accounts, similarly, any funds for a new depositor.

And so slide 25 is our list of

resources. I went through this very quickly, as I mentioned, but this is certainly our effort to modernize the regulations and streamline them and clarify some issues where we received a lot of questions.

And so as we go through this implementation, I encourage you to, like I said, look at this list of resources and look at our website.

And if you have any questions, please submit them through the website. We're happy to answer them.

So with that, I think I'm going to turn it over to Chris.

MR. FINNEGAN: Okay, well, thank you, Rae-Ann. And what I'm going to discuss with you all today just real quickly is to give you some insight on our reported exam on the consumer compliance side, because you might be receiving communication from us differently going forward, particularly involving how we're going to actually write and present the consumer compliance findings to banks.

And so first, I want to say that while we are actually changing the way we do our consumer compliance report, and the reason we're doing it and testing it out in this pilot that I'm going to go over, is we're always looking for ways to improve the way we communicate with our banks, to make ourselves more efficient, and make sure, well, the biggest thing is that you get something out of that report, that the findings of the exams and any recommendations that might come out of it, we want to make sure that it is helpful to you as we go through that process.

So, and this is what this is going to be. And so what had happened was, we've had a kind of one standard report that we've had for a while.

And we got some feedback and we noticed that some of these reports were quite lengthy, even for our lower risk institutions that hadn't had much changes since the last exam.

So we looked at it and we decided to

move forward with perhaps changing the way we'll do our reports for certain low risk institutions going forward.

But again, with the point being to have effective communication with our institutions. So, Mike, if you could go to the next slide, please.

So what we're going to do, and I want to point out before I get into the things that are on this slide here, that this is, I'm just talking about the way the report's going to look, the way the findings will come back to your institution.

It's not going to change the way we're doing our exams. We're still going to do our consumer compliance exams the way we always have.

They're going to be risk scoped, where we'll focus in on the highest risk areas for potential consumer harm. That's not going to change as part of that.

Also what's not going to change is your CRA public evaluation. That will still be the same format that we used historically.

This is dealing with our consumer compliance report. And so what we're going to do, we had a pilot last year that we did.

So some of your banks may have actually even received a streamline report back there. And so we got some feedback, both from our examiners as well as from banks that were part of the program.

The phase one was basically a letter that we sent to certain institutions. It wasn't really in a report format.

It was more of just a combined letter that we sent, a couple pages long. And the feedback that we got, we probably would want more of a report, actually, versus just a letter.

That was the feedback we actually got from the banks as well.

So what we're going to do is we're going to pilot another version of this starting with exams that start May 1 through June 30. So about a couple weeks from now, we're going to start this.

Again, what the purpose is to have exam efficiency and more timely turnaround. We want to make sure we're getting that report out as soon after the exam as we can.

And we believe that this will help. But again, we also want that report to have good information in there for you. So it's a balance there that we're going to have through that.

Again, I want to mention that there's going to be no changes in our exam process. The way we're going to do it again is just the format of the report going forward to hopefully again be more timely, efficient, and to get the information we need to you as quickly as we can.

So, Mike, if you can go to the next slide, please.

These, I did mention there was going to be, for certain low risk institutions, this is what we're going to be using during this phase two of the pilot.

The ratings have to be satisfactory

for both compliance and CRA, no what we call the level three, those are our most severe violations, no UDAPs, anything like that when we do our standard reports, would not be eligible for a streamlined report.

No civil money penalties, no repeat level two violations. There could be some violations that are level two, but if there's repeat in there, it would not be eligible.

And if there's restitution of more than $1,000. So those are some of the eligibility criteria that we'll have for this report going forward for this pilot. Mike, if you'd go to the next slide.

Again, like I mentioned earlier, it's just mainly going to be the format change on there. Our first phase, we did it as a letter.

This new phase, this new pilot, is actually going to look more like a report. It's going to have a cover.

It's going to have a compliance management description in there. There'll be a transmittal letter.

But it will be much more concise than what our standard report would be. Again, this is for our lower risk institutions that haven't had much change since the last exam.

We feel that this will be a good way of still getting the exam findings out to you in an effective manner, but just in a different format. So, Mike, next slide, please.

So I mentioned that this was going to be a pilot. And so part of that is we'll be getting feedback from our examiners.

But the most important feedback, of course, that we'll have is from the bankers and the banks that participate during this couple month period that we're going to have.

So we have a process that we'll be asking for to see how the report is taken by the institution.

Does it provide enough information to the bank about the consumer compliance exam that we did?

So we're going to encourage that throughout that process. And then once we get that, then we'll decide whether or not we're going to make this a permanent part of our tools that we use for our reports going forward.

And we should know that hopefully some time later this summer after we get that feedback.

Now, at the same time that we're doing the streamline report, we're also looking at our standard report.

That is something that we have not changed in several years. So we have a project going on right now that we're looking at that to see, in the cases where it's not going to be a streamline report, is our standard report getting the feedback and communicating back to you the results of your exam, any recommendations or findings?

Is it effective? And so we're looking at that as well at the same time. So once we get the feedback from the streamline report and this project that we're doing for the standard report, we'll be able to see what our report's going to look like going forward.

So again, we always encourage to provide us any feedback. This is your report that comes out after a long process from pre-exam planning to the onsite that we do, from where we're actually looking at things during an exam.

We're pulling the report together. This is a key part of that written document that we provide back to you, so we want to make sure we get whatever feedback on that.

So that was a quick highlight. Some of you all might get this report going forward during this pilot.

And if we do implement this on a permanent basis, you may see this going forward. So we always ask for your feedback on that.

All right, Mike, I think we go to the next slide. I think now it's time for questions.

MS. KEA: Thank you to Doreen and the team. I would invite the members, if you have any questions at this time, please either raise your hand or you can just turn your camera on.

MS. EBERLEY: Arleas, maybe while we're waiting I can as Bobby Bean to address the comments that were raised in the opening session on the community bank leverage ratio.

MS. KEA: Thank you, Doreen. Bobby?

MR. BEAN: Yes, can you hear me?

MR. EBERLEY: Yes, we can.

MR. BEAN: Yes, there was some questions concerning how the FDIC and the other agencies are thinking about the CBLR, particularly as there's a large amount of deposit growth and a kind of increase in PPP lending.

And we understand that deposit growth and participation in PPP lending has led to us a significant balance sheet growth across community banking organizations.

And that has a potential compliance challenge to CBLR requirement, particularly as it transitions back to 9 percent.

The FDIC along with the other agencies

will actively monitor banking conditions, including assessing balance sheet dynamics, reserve levels, and the potential strain on community banking organizations.

Now, we want to ensure that the CBLR framework serves to reduce regulatory burden for qualifying community banking organizations.

But we want to make sure that it does so in a manner that is consistent with safety and soundness principles and the goal of providing credit to household and businesses over a range of economic conditions.

So we will be continuing to monitor conditions and the issues as it progresses and will consider actions from there.

MS. KEA: There was a question from Steve Hayes. Steve, did Bobby answer your question or is there more information that you would like?

MR. HAYES: No, he answered my question. Can you hear me okay?

MS. KEA: Yes.

MR. HAYES: Yes, I asked the question, so, from my understanding now, it's considered expired as of March 31 and you're just going to the situation? As of today, it has expired. Is that correct?

MR. BEAN: Yes, as of today, we are back into the transitioning provision, back to the 9 percent, and we will continue to monitor conditions and the situation as we move forward.

MR. HAYES: Okay. Thank you.

MS. KEA: Doreen, I think there was also a question, one more question from Bruce Lowry. Bruce?

MR. LOWRY: Hello, thank you. I just was curious, back on the broker deposit discussion, and let me just start off by thanking the FDIC for looking into that topic and for the changes that were made.

But I think there's some thought, especially with some community banks, that perhaps things didn't go far enough, and particularly in the area of looking at the national banks and the weighted portion of the deposit that they make up.

I don't know the exact numbers but it's somewhere in the neighborhood of 80 percent of deposits are held by the largest national banks.

Community banks have something like 20 percent. And so that's heavily weighted. And when you really look at rate offerings by national banks versus credit unions and community banks, there's a large disparity.

So I was just curious if that was a topic that would ever be looked at again in something similar to that light or maybe have more comment period for banks to be able to input on that.

MS. MILLER: Yes, I appreciate that. We did look at those issues and we also worked with our economists, of course, on this regulation.

It's quite a heavy lift. The law requires a market rate and it is true that the larger institutions control more of the market.

Make some changes based on comments received. So in my area, we added credit unions, which was a big comment.

And we also, the national rate is just one piece of the puzzle, right? What attaches when institutions become less than well capitalized is the rate cap.

And so we created additional flexibility within the rate cap of providing for the higher of the national rate plus 75 basis points or a comparable treasury rate plus 75 basis points.

So we felt that those things combined provide a very robust way for institutions that are less than well capitalized to, within the law, compete while still being restricted.

There's also a much more flexible local rate cap for those institutions that wish to compete locally with specials and different types of maturities and things of that nature. So hopefully, that answered your question.

MR. LOWRY: I just express that part of the concern of that comes from the definition of well capitalized is a bit subjective in an exam.

I mean, you can meet the statutory numbers and still be deemed not well capitalized. So there's a subjective nature to that that could be problematic.

Right now, we all have more liquidity than we need, so it's not really an issue at the moment, but --

MS. MILLER: Just so you know, it should not be subjective to what well capitalized is. Well capitalized is well capitalized.

It's what your capital ratios are. They're defined by regulation. There is a quirk in the PCA with respect to enforcement actions, but it is not a subjective calculation.

And if you're finding subjectivity with respect to your capital calculations and your deposit, we would want to know about that because that's not appropriate.

MS. KEA: I think I saw one additional hand from Hal Horvat.

MR. HORVAT: Yes, thank you. My question is more I think for Doreen and John. I certainly agree that the FDIC did a great job when the pandemic hit, and particularly in terms of the guidance that were issued.

We had a great relationship with the Boston office here. They reached out to us and we had some significant conversations.

Since that time, or do you anticipate any further guidance happening now that we're a year into this or more than a year into this?

And can you give us any insight into how exams are being handled specifically with regard to asset quality?

Because we're now starting to see financial statements from last year showing reduced income and companies not meeting their financial covenants.

And just curious as to what you're seeing relative to exams and how those are being treated.

MS. EBERLEY: Sure. I'm happy to start and I'll ask Rae-Ann to weigh in. We're not seeing significant asset quality deterioration.

There are certainly some. And we're seeing, as Camille noted earlier in the day, we are seeing some institutions, we're seeing some DOW rates and internal rating systems.

So institutions themselves are recognizing increased risk among some borrowers for some of the situations that you named.

And so we're seeing a little bit of that migration. Not a meaningful amount. Not anything that's leading to significant changes in composite ratings.

There's always a one off, but there's no trends, no discernible trends, I guess would be the best way to say it, coming from all that.

That said, we have to continue to look at assets the way we've always looked at assets, right?

You have to recognize if a loan's not going to be repaid or if you don't expect full payment, regardless of whether you're calling it a troubled debt restructuring or not, if those facts bear out, if you don't expect to get full repayment, you need to put the loan on amount accrual, you may need to take a partial charge off.

You may need to rework the note. And so those are the kinds of things we're hearing a little bit about from our examiners, that bankers are going through some of those conversations now.

We do want to update some existing guidance on commercial real estate workouts, and that's a topic interagency that we are working on that we think may be of some need later on this year or as time continues to pass.

But those are the sorts of things that we're talking about. And I'll ask Rae-Ann to weigh in with anything more she may have.

MS. MILLER: I think you did a good

job, Doreen. Remember, we issue guidance to you guys, but we also issue instructions to our examiners and we conduct training for our examiners.

We're used to examining during crises. We've had hurricanes and wildfires and things that affect local areas. This is obviously a much bigger issue.

So our instructions to examiners, they're publicly available. You can read them, go through them, and get an idea of what they're looking at.

But essentially, they're looking at risk management and risk assessment. And even in the case where loans might meet the definition of substandard or worse, there's some longer-term situations that may not improve in the term, as long as risk management is doing what they need to do to improve the situation, that's a good thing for both the bank and the borrower.

So that's what we instruct our examiners. We train them, we go through nationwide training programs, we use scenario analysis, we return to questions, we talk in small groups with them.

So we do what we can to try and keep up with how things are going. But I would say one thing that really boded well, Shayna alluded to this, that we were sitting here a year ago, we thought things would have been much worse.

Banks went into the crisis I think with pretty strong risk management frameworks, healthy levels of capital and strong earnings.

And so all of those things sort of served the system very well when these troubles hit. So that's all I have to add, Doreen.

MS. KEA: Doreen, we do have one more question. Mark Pitkin. Mark, just checking in with you. Did you have a question?

MR. PITKIN: I was on mute. I am so sorry. First and foremost, I want to thank all the folks in supervision for their supportive attitudes and supportive tact toward banks the last 12 to 18 months.

I sit on a number of local as well as national committees and organizations and I have not spoken with one banker that wasn't basically impressed with the way that their examinations went.

So again, thank you so much for that. My question may or may not necessarily be to you, Doreen, but I didn't see anywhere else in the agenda to ask the question.

And it may be more of a policy question. And I think Sarah hit this topic. But it's the topic of these Fed accounts.

So this is a significant concern, certainly for myself and other local community banks, that we've worked so hard to make sure that we avail our accounts to each and every person in our rural communities and we make every effort to make sure that they have the availability to be banked.

And one of our biggest concerns is this discussion about sort of these competing Fed accounts. Certainly, if it's from postal delivery.

So most of our branches, like I indicated, are in small communities, and unfortunately, right next door is the postal service.

So I am just wondering if someone had any thoughts, and again, Doreen, it may be you or maybe someone in supervision as it affects sort of risk, or it may be more on the policy side.

But what are the thoughts of the corporation with regards to the possibility of these competing Fed accounts, and how do you see that affecting community banks going forward that, again, worked so hard in order to get and retain those deposits of our localities to each and every individual?

MS. EBERLEY: Thanks for the question. I think I can't give you an answer to that. I can just say that the competitive landscape is always changing for community banks and there's always a new competitor around the corner.

And I think one of the strengths that

community banks bring to the table is the true focus on the community and the consumers in the community and the range of services that are provided.

So it's not just a depository account. It's the opportunity to create a relationship where the consumer can get borrowings, maybe other products and services from the institution, but truly that relationship with the institution for the full range of services that are available that are a real competitive strength for community banks and have been.

MR. PITKIN: Okay. Thank you. I just was curious as to, again, all your thoughts on community banks competing with the federal government in some of these instances. So, thank you.

MS. KEA: Thank you, Mark. And thank you. Let's see. Mark Pearce.

MR. PEARCE: Thank you. If I could just add on, Arleas, to Doreen's comments about community banks serving the banking needs of their customers.

I wanted to just mention for this group's awareness, we have been working pretty hard here at the FDIC to help consumers be aware of their options, be part of the business with them and have an account at an insured institution.

So just in the last week or so, have launched what we're calling a Get Banked campaign. We have a website that is directed to consumers to help them understand what are the benefits of having a bank loan with an insured institution and help them think through what their options are related to that.

Many banks have been offering accounts that are low cost, without some of the fees that maybe have not been successful for people living paycheck to paycheck in the past.

And so now I think it's probably the best time for consumers to take a look at what options are available for them now, especially in a time when we have had a lot of federal benefits, economic impact payments, and other things that are being directed to consumers and recognizing that if you have a bank account and that account is part of the tax information with the IRS, you can get your funds direct deposited into that account much quicker than you would if you're going to rely on paper checks or a card or things sent by mail.

So there are more benefits than ever around having an account at an insured institution. So that's something that we've been trying to do our part to increase awareness of.

MS. KEA: Thank you, Mark. That's very helpful information. Thank you. I don't see any additional hands.

And like so many of the conversations that we've started this afternoon, they are the beginning of conversations and could go on for more. But we will move on in the agenda at this time.

Let me just say, it does appear that we are running possibly about 10 to 15 minutes behind.

We would like to be able to complete the other information that we have to give to you. So if you all don't mind, please forgive us if we run just a few minutes over.

We'll try to turn it over to the chairman for her closing remarks at about 5:10 or 5:15.

So at this time, I'd like to present to you John Anderlik, who is our Assistant Director of National and Regional Risk Analysis from the Division of Insurance and Research.

And John is going to share a research update, which focuses on the FDIC's Community Bank Study and Agriculture Lending. So John, the camera is yours.

MR. ANDERLIK: Thanks, Arleas. So, yes, today I'm going to be discussing a couple projects from the FDIC's Division of Insurance and Research.

The Community Banking Study, which we published in December, and the FDIC Quarterly

Paper on Agriculture, which we published last month.

Today I'll cover both of these projects at a fairly high level. Mike, let's turn to the first slide.

We'll start with the Community Banking Study. The FDIC's first Community Banking Study was published in 2012.

That study had two primary goals, to define community banks beyond the simple asset size, such as $1 billion, and compare the characteristics and performance of community banks with those of non-community banks.

That paper, a long study period from 1984 to year end 2011. This study builds on several of the themes from the original study, bringing them forward through year end 2019.

It also includes two issues that were not covered in the original study, regulatory change and technology, and their effects on community banks.

I'm going to take a quick walk through

each of the study's six chapters today. But one thing before we get to Chapter One.

Though the study goes through year end 2019, we felt it would be remiss if we didn't mention 2020's pandemic.

So each chapter includes an inset box that discusses the pandemic and its community bank effects on the issue studied. Next slide.

Chapter One covers the financial performance of community banks from 2012 through 2019.

Overall, community banks have performed pretty well. We begin the chapter by showing that community have banks have reported steadily increase pre-tax ROA since the conclusion of the prior study, reaching 1.44 percent in 2019, up from 1.05 percent in 2012.

However, similar to the conclusion that was reached in the original study, non-community banks continue to report higher earnings overall than community banks, primarily because non-community banks have a large advantage of generating non-interest income.

But the gap in pre-tax ROAs narrowed to just 22 basis points by year end 2019, down from 43 basis points when we started this study in 2012.

Community banks do have two advantages of financial performance over non-community banks. First is higher net interest margins.

As you can see from the chart, community banks have had an advantage over non-community banks since 2010.

Second is credit quality, as measured by credit losses. The full year charge off rate reported by community banks reached a post-crisis low of 0.13 percent in 2019, which was 45 basis points below the rate reported by non-community banks. Let's turn the slide.

Chapter Two focuses on the structure of community banks. Consolidation continued between 2012 and 2019, with non-community banks consolidating at a faster rate than community banks. Consolidation was led my voluntary mergers by unaffiliated institutions.

Two differences stand out in the examination of consolidation trends in this study versus that of the prior study.

First, from 2012 through 2019, the number of new banks formed each year declined to post-1984 lows.

Second were fewer new institutions replaced those that were acquired or closed. The rate of net consolidation increased from 3.2 percent annually from 1984 to 2011 to 4.3 percent between 2012 and 2019.

The chart shows over two-thirds of the community banks that closed between 2012 and 2019 was because of merger, failure, or other voluntary closing, did so because they were acquired by another community bank.

The smallest community banks were those under $100 million in assets, were highly likely to stop operating because they were acquired by another community bank.

But even among community banks with $1

billion to $10 billion in assets, nearly one of every five that ceased operation did so because they were acquired by another community bank. Next slide.

Chapter Three examines demographic change. This is an important issue to assess because as demographics change, community banks see changes in their client bases and loan demands.

The two major demographic factors considered in this study are median age and net migration flows.

True to these metrics, we looked at the counties in the highest and lowest quartiles for each metric.

The map shows both counties, I'm sorry, the map shows those counties that were in either the highest or the lowest quartiles for both of the measures we studied.

Dark blue counties are the youngest median ages and the highest net population inflows. These counties tend to be located in metro areas.

Our study found that community banks headquartered in such counties experience faster asset and loan growth rates, are more profitable, and have larger shares of business loans than other community banks.

At the other end of the spectrum, the dark gold counties were in the oldest quartile and had the lowest net inflows, actual net outflows of about 0.4 percent per year. These counties tend to be rural.

Community banks headquartered in these areas grew more slowly and lower commercial lending portfolios. They also have higher deposit to asset ratios.

The chapter also includes a large inset box on rural population, which is a key topic for the dark gold counties.

The FDIC has published two papers on that topic since 2004. Next slide, please.

Chapter Four discusses three notable lending strengths of community banks. At year end 2019, community banks in aggregate held small shares of the banking industry's assets and loans.

Just 12 percent of the total industry assets and 15 percent of total industry loans. Yet community banks are key providers of CRE loans, small business loans, and agricultural loans. The next three slides cover these areas.

We'll start with CRE. Community banks hold 30 percent of the banking industry's CRE loans.

The chart shows how community bank CRE lending overall is outsized compared to their assets.

CRE lending is widely distributed among community banks, with almost all of them holding some amount of CRE loans and many holding substantial portfolios.

Community banks are active lenders to a wide range of industries, including industrial, retail, and hotels.

And community bank multi-family

lending grew in the years between 2011 and 2019. If it is the lending across industry types, community banks have been active CRE lenders across all sizes of markets as well.

In 2019, community banks headquartered in rural and small metro areas held more than two-thirds of CRE loans held by all banks headquartered in those small geographic areas.

In larger metro areas, community banks' share of loans was smaller but still material.

One final note on this topic, the share of community banks that the FDIC considers CRE specialists increased over the study period.

These CRE specialists are particularly important providers of CRE loans in small communities. Next slide, please.

The second area of lending strategy for community banks is small business lending. At year end 2019, community banks held 36 percent of the banking industry's small business loans.

During the period covered by the

study, community banks' share of small business loans declined per call report data.

You can see in the chart that non-community banks grew their business loans across loan sizes while community banks' business lending remained flat across the lending spectrum.

But call reports don't tell the whole story. Call reports are based on the size of the loan, not the size of the borrower.

In response to the 2018 FDIC Small Business Lending Survey, many bankers said their CNI loans were extended predominantly to small businesses regardless of the size of the loans.

This supports the widely held belief that at community banks, many CNI loans above $1 million are in fact loans to small businesses.

Another data source that supports that community banks continue to be active lenders to small businesses is the SBA.

The SBA 7(a) program guarantees loans originating up to $5 million. Community banks' share of loan originations increased from 38 percent of total originations in 2012 to 46 percent in 2019, and many of those loans were above the $1 million call report threshold. Next slide, please.

The third area of lending strength for community banks is agricultural lending. Community banks play a key role in financing the U.S. agricultural sector, funding roughly 31 percent of total U.S. farm sector debt in 2019.

About a half of community bank agricultural lending is held by community bank agricultural specialists, and we focus on these institutions in the chapter.

These banks tend to be small and rural, with a median asset size of just $128 million. 75 percent have total assets of less than $250 million.

An important point we make in this chapter is that community bank agricultural specialists have shown a strong commitment to such lending over the years.

The chart shows that most agricultural specialists have a long history in that role. Of these institutions that were in operation from January 1990 through year old 2019, over 55 percent of them were classified as an agricultural specialist in at least 28 of the 30 years.

In addition, agricultural specialists have been community lending to farmers through cycles in the agricultural sector.

From first quarter 2000 to fourth quarter 2019, in only two quarters, the community bank agricultural specialists as a group saw an annual decline in aggregate agricultural production loans.

And they never reported a quarterly decline in aggregate farmland secure loans over that 20-year period. Next slide, please.

We'll turn now to Chapter Five on regulatory change. The chapter describes regulatory changes from the onset of the financial crisis in 2008 through 2019 that were relevant to community banks and the effects these changes may have had on those banks.

As shown in Chapter One, community banks in aggregate have been performing well, but it is often said that regulatory compliance may be relatively more expensive for smaller institutions.

In that respect, three issues stand out in our research. First, running a small residential loan function appears to be becoming less economical over time.

The chart shows that the percentage of small mortgage lenders with sustained reductions in balance sheet mortgages has been increasing, especially since the crisis.

The chapter examines this issue under three different definitions of a small mortgage lender.

The other two trends, the record pace at which community banks have been exiting the industry since 2014, and what appears to be the increase in target asset size of new small banks based on their initial equity, are consistent with the presence of scale economies.

In principle, the need for a compliance function is a potential source of scale economies. The study makes it clear that policy benefits of regulation and how well they are achieved are beyond the scope of this analysis.

So nothing in the chapter should be viewed as a criticism of the regulations.

The bottom line of the chapter is support for the idea of achieving regulatory goals while accommodating, as appropriate, the business models of community banks. Next slide, please.

The last chapter in this study is on community banks' use of technology, which ties in really well with the conversation you had with Sultan earlier this afternoon.

Community banks have adopted different technologies, including newer technologies such as mobile banking, online loan underwriting, and online loan applications at different rates.

According to research and community banks' own descriptions of opportunities and challenges, factors such as banks' characteristics, the economic and competitive environment, and the attitudes and expectations of bank leadership, all play an important role in community banks' adoption in technologies.

The chapter examines how technology haves, or those with high adoptions of technology, differ from have-nots, or those with low adoption.

The purpose was to shed light on the potential motivators, failures, and outcomes associated with technology adoption.

The study uses the results from the 2019 CSBS Annual Community Bank Survey. Survey responses suggest that cost is a significant challenge to technology adoption.

Almost half of community banks used the word cost at least one when describing challenges. As the chart shows, larger community banks are more likely to have adopted technology than smaller banks.

Just 6 percent of community banks with less than $100 million are considered high adopters of technology, while 70 percent of community banks with assets over $1 billion are high adopters.

In addition, relative to low adopting banks, high adopting banks have a higher loan to assets ratio, had faster loan and deposit growth, face greater competition within their local markets, and had more positive outlooks on profitability, business conditions, and regulatory burdens. Next slide, please.

Let's turn to the FDIC Quarter article on Agriculture that was published last month. In the paper, we've taken an extended look at the U.S. agricultural sector and the condition of farm banks.

In the first half of the paper, we examine the unusually long boom in farm income from 2004 to 2013, the period following the boom from 2014 to 2019, and then the turbulent 2020 that ended up as a positive for the sector.

In this analysis, we focus on 12 states in the upper Midwest where everything was magnified.

The farm income boom was more substantial in the states, as was the downturn that followed the boom.

In the second half of the paper, we examine how the changes in the agricultural sector affected farm bank conditions, how bankers responded, especially during the boom years, and the challenges that persist. Next slide, please.

While some of the chart that shows inflation adjusted U.S. net farm income going all the way back to 1960, the chart shows that two income boom periods, from 1972 through 1975 and then from 2004 through 2013.

The recent boom didn't reach the pique of 1973's income level, but it was far longer. During that 10-year period, U.S. net farm income averaged $102 billion per year, well above the

$77 billion annual average from 1987 to 2003.

During this period, the sector saw substantial price increases across several important commodities, including corn, soybeans, wheat, cattle, dairy, and hogs.

Production expenses for things such as fertilizer and seed increased during this time. And farmland became more expensive to rent.

But commodity prices rose much more than expenses, leading to the higher net farm incomes.

The long period of prosperity ended in 2014, and strong returns incentivized heavy growing in the U.S. and around the globe, putting pressure on commodity prices.

By 2016, average annual prices farmers received for corn and wheat were down nearly 50 percent for their needs, and prices for hogs, milk, and soybeans were down by a third.

Production expenses declined during this period, but slowly. The result was a large drop in farming, comes from those achieved during the boom.

By 2019, the sector had stabilized, though at somewhat a weak level. Then 2020's pandemic initially roiled the sector with significant disruptions to food demand and supply chains.

Commodity prices, especially for corn, plummeted in April and May. But record governmental support combined with late in the year recoveries and export and commodity prices helped the sector achieve strong overall incomes in 2020. Next slide, please.

Let's turn now to farmland values. And I know a few of you mentioned that in your opening remarks.

Farmland represents the largest portion of most farmers' assets and net worth. You see in the chart the dramatic rise in farmland price in the 1970s that preceded the agricultural crisis of the 1980s.

Farmland prices dropped precipitously during the crisis and did not begin to grow again until the mid-1990s.

Not surprisingly, farmland prices grew to record levels during the farm income boom that began in 2004.

In contrast to the farmland price boom in the 1970s, farmland prices did not fall beginning in 2014 when farm incomes declined.

The combination of low interest rates, tight supplies, and a steady demand for farmland kept farmland values relatively flat since the farm income reminded.

There was another big difference in the farmland price boom of the 1970s and the recent boom.

In the 1970s, the price gains were widespread. Farmland values in 20 states at least doubled, and another 22 states saw prices go up at least 50 percent.

But in the recent boom, farmland price increases were more isolated. Though farmland prices rose 81 percent overall between 2005 and 2015, less than half of all states experienced a run up of 50 percent or more.

This time, only eight states saw farmland prices more than double during the boom, and all eight of these states are what we call the upper Midwest in our paper.

I'll get into the upper Midwest more in the next slide, but it's the combination of three USDA economic regions, the Corn Belt, the Lake States, and the Northern Plains. Next slide, please.

In this chart, we focus on the upper Midwest and contrast it with the farm income performance of the other USDA economic regions.

This chart shows net farming incomes indexed so that the 1987-2003 average is 100. The dark blue line represents the upper Midwest.

The bottom blue line is the aggregate of all the USDA economic regions and the shaded area marks the range of the other regions.

In the early 2000s when overall U.S. agricultural conditions were weak, upper Midwest states had among the lowest net incomes of the

USDA regions.

But then during the farm income boom, incomes in the upper Midwest quickly rose and outperformed all other regions during that period.

When the farm income boom ended, incomes in the upper U.S. swung again, this time downward to among the lowest in the USDA regions.

As the slide shows, incomes in the upper Midwest peaked in 2011 and 2013, in which aggregate income was nearly 2.5 times its long-term pre-boom average.

Incomes in the upper Midwest then fell by more than two-thirds to reach their bottom in 2016.

The swings in income in the upper Midwest track the swings in prices of major agricultural commodities during that time.

Corn and soybeans generate the largest share of cash receipts in these 12 states, and hog and cattle production are also important.

Prices for all of these commodities

increased significantly during the farm income boom, and then fell sharply when it ended. Next slide, please.

In the paper, we then turn to the condition of farm banks through the farm income boom and the subsequent downturn.

The FDIC has long defined farm banks as banks with 25 percent or more of their total loans concentrated in agriculture.

As of year end 2020, there are 1,163 farm banks in the country representing about a quarter of all commercial banks.

The map shows where the nation's farm banks are located, and also that the majority, more than 78 percent, are headquartered in the upper Midwest.

It's not surprising that farm banks performed very well during the farm income boom. You may have noticed that the dates of the boom ran over the great recession.

Since the U.S. agricultural sector was so strong during that time, most farm banks continued to report strong earnings and capital levels and low levels of past due loans.

An area that farm banks found challenging during the boom was loan growth. Since the sector was so flushed with cash, farmers began to pay down debt or even self-finance their operations rather than taking out bank loans.

Banks also had to deal with rising deposit balance during that time. Next slide, please.

One point we highlighted in the paper was how different the behavior of farm bankers was during the recent farm income boom compared with the 1970s boom.

In the 1970s, farm bankers responded to surging farmland prices by dramatically increasing lending to fund expanded farms.

You can see that in the left panel. Farm banks increase agricultural loan concentrations in tandem with increases in farmland values throughout most of the 1970s.

It wasn't until 1979, after several years of lower farm incomes and on the cusp of the agricultural crisis, that banks reigned in their agricultural lending.

Now contrast that to the more recent period shown on the right panel. The median farm bank agricultural loan concentration ratio, which was already lower than before the boom of the 1970s, remained low even when farmland values soared.

This was true even in the upper Midwest, where farmland values rose higher and piqued later. Part of this more muted lending reaction to the farm income boom and rising farmland values would see as many farmers self-financing, as I mentioned earlier.

But farm bankers were also more cautious, not wanting to repeat the mistakes made a few decades earlier.

This sentiment has been a common theme for farm bankers at outreach meetings conducted by the FDIC over the past 15 years. Next slide, please.

My final slide of the afternoon has to do with credit conditions of farm banks. The left slide shows the past due an accrual ratios for farm banks in the upper Midwest and the rest of the country.

The solid lines are the 90th percentiles for both sets of banks and the dotted lines are the medians.

The right chart is similar, but shows the net charge off rate. You can see from the charts that credit conditions improved substantially during the two decades following agricultural crisis.

Then the farm income boom drove delinquencies and charge off measures to historic lows.

Though median delinquencies and charge offs have edged higher since 2014, they've generally remained at or below levels seen immediately before the boom.

Where we have seen increases is in the

tail of agricultural banks. The first quarter of 2020, 90th percentile delinquency rate in the upper Midwest was the highest first quarter rate since 2003.

FDIC examiners also noted an increase in levels of carrier debt at farm banks in recent years.

Overall, though, farm bank credit quality has been resilient since the farm income boom ended.

I'll conclude my agricultural remarks with this. Even though the second half of 2020 and the USDA's 2021 outlook are reasons to be cautiously optimistic about the sector, we still see some challenges for borrowers.

For one, overall debt levels are very high, but this area so far has been moderated by low interest rates.

In addition, a subset of borrowers, what USDA refers to as high leverage borrowers, remains at risk.

It's too early to tell if a strong

2020 will be enough to bring these farmers to a strong financial position.

And with that, it's 5:07 Eastern time. And I can take any questions you might have.

MS. KEA: Thank you, John. If you all have one or two questions, we have time for that. Okay, John, I think that your information does contain some contact information for you.

So we want to thank you for that very informative presentation.

MR. ANDERLIK: Thank you.

MS. KEA: Let me just turn quickly, and as I've said, we've started so many conversations that could go on and on, but we have come to the end of our, and we are fairly late in the day.

I would like to turn first to Director Gruenberg just to see if you have any thoughts that you'd like to share before we close.

DIRECTOR GRUENBERG: Thank you, Arleas. Almost everybody, I'll be very brief. It's been a long afternoon.

I just want to thank you for your participation. This committee has now been in existence for quite a while and has really proven itself to be a valuable asset to the FDIC and our supervision of community banks.

We are the lead federal supervisor for the majority of community banks. And community banking in many ways is central to the mission of the FDIC.

And you and this committee really have contributed in a meaningful way to our ability to do our job, never more so than during this pandemic.

So just wanted to say thanks to your participation today. Look forward to the next meeting of this group.

And really, thank you for your service, both to the FDIC and to your communities. Arleas, thanks a lot.

MS. KEA: Thank you, Director Gruenberg. I'd like to now move to Madam Chairman and ask you to give us some closing comments.

CHAIRMAN MCWILLIAMS: Thank you so much, Arleas. I'll be very, very brief. Thank you all. Your time has been exceptionally valuable to us, as has your feedback.

Before we adjourn, I'd like to thank two people whose terms on the committee came to a close last month.

Dick Beshear, Chairman of the Board of First Security Bank and Trust Company in Oklahoma City, Oklahoma, and Cathy Stuchlik, Chairman and President of Clackamas County Bank in Sandy, Oregon.

On behalf of everyone in the FDIC, I would like to thank Dick and Cathy for the time and effort they devoted to this committee. I wish them all the best and look forward to seeing the rest of you in July.

Thank you so much and I hope you can get some rest after a very long video meeting. Thank you. Bye bye.

MS. KEA: Thank you, Madam Chairman.

Thank you to all of our members. We'll see you in July. Bye bye.

(Whereupon, the meeting in the above-entitled matter was concluded at 5:10 p.m.)

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C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: Advisory Committee
on Community Banking

Before: FDIC

Date: 04-13-21

Place: teleconference

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate record of the proceedings.

Neal R Gross

Court Reporter