

The Meeting of the Advisory Committee on Community Banking
of the

Federal Deposit Insurance Corporation

Held in the Board Room

Washington, D.C.

Open to Public Observation

October 5, 2023 - 9:00 A.M.

The meeting of the Federal Deposit Insurance Corporation (FDIC) Advisory Committee on Community Banking (Committee) was called to order by Martin J. Gruenberg, Chairman, FDIC Board of Directors.

Committee members in attendance: Thomas Bates, President and CEO, Legends Bank, Clarksville, Tennessee; Mike Bock, CEO, Dairy State Bank, Rice Lake, Wisconsin; Troy Campbell, President and CEO, Altoona First Savings Bank, Altoona, Pennsylvania; Anita Drentlaw, President and CEO, New Market Bank, New Market, Minnesota; Susan Horton, President, CEO, and Chairman of the Board, Wheatland Bank, Spokane, Washington; Harold (Hal) Horvat, President, CEO, and Chairman of the Board, Centreville Bank, West Warwick, Rhode Island; Warren Huang, General Counsel, Amerasia Bank, Flushing, New York; Robert James II, Executive Vice President, Carver State Bank, Savannah, Georgia; Cynthia (Cindy) Kitner, President and CEO, Jefferson Security Bank, Shepherdstown, West Virginia; Trey Maust, Executive Chairman, Lewis & Clark Bank, Oregon City, Oregon; Dominik Mjartan, President and CEO, OPTUS Bank, Columbia, South Carolina; Arlen Osterbuhr, CEO and Chairman of the Board, Minden Exchange Bank & Trust Company, Minden, Nebraska; April Perry, CEO and Chairman of the Board, Kentucky Farmers Bank Corporation, Ashland, Kentucky; Shane Pilarski, President and CEO, Alliance Bank, Francesville, Indiana; Kim Reigelsberger, President, Preferred Bank, Rothville, Missouri; Troy Richards, President, Guaranty Bank & Trust Company, Delhi, Louisiana; and Lillous Ann Shoemaker, President, Magnolia State Bank, Bay Springs, Mississippi.

Committee members absent from the meeting: Michael Culhane, President and CEO, North Cambridge Co-operative Bank, Cambridge,

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Massachusetts; and Andrew West, President and CEO, Eagle Bank, Polson, Montana.

FDIC Vice Chairman Travis J. Hill also attended the meeting.

FDIC staff in attendance: Lisa D. Arquette, Michael B. Benardo, Tawanta L. Brinson, Luke Brown, Charmion L. Haley, Navid K. Choudhury, Suzanne L. Clair, Angela Dean, Debra A. Decker, Sheila R. Finlayson, Fasil Getachew, Shannon N. Greco, Mark L. Handzlik, Lance Jameson, Rosilyn L. King, Thomas F. Lyons, Krishna Patel, Mark E. Pearce, Nikita Pearson, Harrel M. Pettway, Ariana L. Rambuyan, Lisa K. Roy, Betty J. Rudolph, Camille C. Schmidt, James P. Sheesley, Nefretete A. Smith, Mona L. Thomas, Benjamin Tikvina, and Katrice L. Yokley.

Chairman Gruenberg opened the meeting and presided over the proceedings. Nikita Pearson, Deputy to the Chairman for External Affairs and Director, Office of Minority and Women Inclusion, moderated the proceedings.

Introductory Remarks

Chairman Gruenberg began by welcoming everyone and noted that he looked forward to hearing the Committee members' feedback. He acknowledged Vice Chairman Hill, who also welcomed everyone, expressing that he too was looking forward to hearing the perspectives of the Committee members. Chairman Gruenberg then recognized Ms. Pearson to proceed with moderating the program.

Discussion of Banking Conditions

Ms. Pearson introduced Krishna Patel, Section Chief, Division of Insurance and Research (DIR), Benjamin Tikvina, Section Chief, DIR, and Camille Schmidt, Section Chief, Division of Risk Management Supervision (RMS), to provide an overview of banking conditions with particular emphasis on economic conditions, funding and interest rate risk, and credit risk. Following the briefings, FDIC staff invited members to provide their thoughts on these topics and any other risks and areas of concern to the bankers.

Member Reigelsberger began the discussion by stating that her institution has raised deposit rates, but not by much, which has allowed the institution to keep loan rates low. Member Mjartan commented that interest expense at his institution is

increasing, but he is starting to see the yield on earning assets rise almost in sync. A few members noted they have increased their certificate of deposit (CD) rates, with some offering CD specials. Member Perry mentioned that credit unions are huge competitors for deposits in her area and have expanded their reach. Several members added that they have lost deposits to investment firms.

Members Richards, Mjartan, and James expressed that the definition of core deposits is outdated and should be updated.

At the conclusion of this portion of the discussion, Ms. Pearson called for a short recess at 10:04 a.m. The meeting resumed at 10:21 a.m.

Discussion of Banking Conditions (Continued)

Member Shoemaker commented that growth in commercial and residential real estate is strong in her area. She noted an increase in the number of people moving into the state, which is a contributor to the strong real estate market. Several members commented on the decline in residential real estate loans. Member Perry mentioned that loan demand is still strong, but that she is seeing a shift in the types of loans they are making, with greater numbers of short-term and installment loans. However, Member Drentlaw commented that she is starting to see a lack of loan demand for various reasons, such as higher interest rates, increased wages, and elevated equipment prices. Some members noted that they are tightening their lending standards, particularly the debt service coverage ratio, while Member Perry stated that her institution is making exceptions to the loan policy for auto loans due to the premium that consumers are having to pay for vehicles.

Several members expressed concern about the current and future economy. Member Bock stated that senior housing and assisted living are loan portfolios that he is concerned about in the next three to five years.

2022 Financial Institution Diversity Self-Assessments

Ms. Pearson provided a briefing on the Financial Institution Diversity Self-Assessment for 2022, issued by the FDIC in accordance with Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. She encouraged the members to have their institutions complete the

voluntary self-assessment by the extended deadline of October 20, 2023. She also shared how the self-assessment could benefit the members and their FDIC-supervised institutions by helping them to assess and enhance their diversity policies and practices. Members followed up by asking questions regarding how to access the self-assessment and the anonymity of bank submissions.

Update from the Minority Depository Institutions Subcommittee

Ms. Pearson then recognized Betty Rudolph, Director, Office of Minority and Community Development Banking, and Warren Huang, General Counsel, Amerasia Bank, who serves as a Committee member and a member of the Minority Depository Institutions (MDI) Subcommittee. Ms. Rudolph and Mr. Huang provided an overview of the MDI Subcommittee and a summary of its meeting held the prior day, October 4, 2023.

Ms. Rudolph began by providing background information about the purpose, goals, and composition of the MDI Subcommittee.

Member Huang announced that the MDI Subcommittee had no current recommendations for the FDIC. He then provided a summary of the discussion topics from the MDI Subcommittee meeting.

Member Huang also mentioned that the Subcommittee received information about the upcoming Interagency MDI/Community Development Financial Institution Bank Conference. There were no questions from Committee members.

At the conclusion of this report, the meeting stood in recess for lunch from 11:33 a.m. to 1:07 p.m.

Supervision and Policy Updates

The proceedings resumed with Ms. Pearson recognizing Suzanne Clair, Associate Director, RMS; Lisa Arquette, Deputy Director, RMS; and Mark Pearce, Director, Division of Depositor and Consumer Protection (DCP), to begin the briefing on various supervision and policy matters and updates.

Ms. Clair began by highlighting various asset-liability management charts detailing trends in liquidity and interest rate risk at community banks. She then discussed the addendum to the 2010 Interagency Policy Statement on Funding and Liquidity Risk Management.

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Member Richards asked about expectations regarding banks having access to the discount window.

Chairman Gruenberg responded by discussing lessons learned from failures earlier this year and banks being prepared to access the discount window during a stress event. He asked the Committee members to discuss their views on whether there is a potential stigma associated with accessing the discount window.

A number of members noted that they have discount window access and that there is no or very little stigma attached to using the discount window. Member Richards expressed more concern about regulatory views than a public stigma.

Member Maust asked about the regulatory view of the use of reciprocal deposits. Ms. Clair answered that reciprocal deposits are viewed as wholesale, but highlighted that it is difficult to compare to other funding sources.

Ms. Arquette then discussed banking cannabis-related businesses. She emphasized that the FDIC recognizes the importance of ensuring public access to financial services for consumers and businesses. She noted that the decision to open, close, and decline particular account relationships is made by the bank and should be based on business objectives of the bank, the evaluation of associated risks posed by individual customers on a case-by-case basis, and implementation of controls to manage the relationship commensurate with the risks. She stressed that as a general matter the FDIC does not direct how banks should handle certain accounts without regard to the risks presented by an individual customer or the bank's ability to manage those risks. Ms. Arquette also discussed regulatory requirements regarding marijuana-related businesses.

Members commented on the difficulty in monitoring businesses that may sell cannabis-derived products and expressed concern about the depth of review in Bank Secrecy Act examinations, particularly regarding indirect relationships with marijuana-related businesses.

Ms. Arquette affirmed that the level of risk tolerance is at the discretion of each institution. She also noted that current guidance does not address indirect relationships, only direct relationships between banks and their customers.

Next, Thomas Lyons, Associate Director, RMS, and Luke Brown, Associate Director, DCP, were recognized to discuss recently issued guidance.

Mr. Lyons first provided an overview of the Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts, issued on June 29, 2023.

Member Richards addressed the regulatory request for comment regarding Call Report changes and shared his view that a definition for modification for borrowers experiencing financial difficulty should be kept simple.

Mr. Brown and Mr. Lyons then provided an overview of the Interagency Guidance on Third-Party Relationships.

Member Maust requested feedback regarding how to oversee third-party activities as if the bank were conducting the activities. Mr. Lyons stated that banks need to understand the ramifications of contracts into which they enter and perform appropriate due diligence. Mr. Brown added that the guidance provides a helpful framework that applies to different types of relationships.

Member Richards inquired how far FDIC responsibility extends as it pertains to notifying banks of bad actors within the financial services industry. Ms. Arquette noted that, to date, the focus has been on issues that may impact the bank's ability to continue to operate, but that the FDIC is exploring ways, with its counterparts at the other agencies, to handle things differently given the complexities that have entered into the financial system and what may be critical to an institution.

Members expressed interest in the FDIC providing a list of acceptable or unacceptable Fintechs or third parties to keep bankers informed. Mr. Pearce responded that the FDIC would not provide such lists, and he outlined the FDIC's lack of direct regulatory authority over Fintechs and non-banks.

Ms. Pearson next introduced Lance Jameson, Product Owner, FOCUS, DCP, to provide a briefing on the Banker Engagement Site, a secure portal for consumer compliance and Community Reinvestment Act examination activities.

Lastly, Mr. Pearce provided an update on the FDIC's "Return to Banks." He shared that about a year ago the FDIC returned to in-person on-site examinations at state non-member banks. He

emphasized that prior to the pandemic, the FDIC had a hybrid approach to examinations, with some work done in-person and some done remotely/virtually. He noted that the FDIC continues to refine the mix of on-site versus off-site bank examination work. Members followed by sharing their views, experiences, and preferences regarding on-site versus off-site examination work of FDIC staff.

Closing Remarks

Chairman Gruenberg thanked the Committee members and presenters for their time, commitment, and meaningful engagement in today's discussions. He then thanked the following members who would be rolling off of the Committee at year-end due to term expirations: Mike Bock (Dairy State Bank, Rice Lake, Wisconsin); Hal Horvat (Centreville Bank, West Warwick, Rhode Island); Cindy Kitner (Jefferson Security Bank, Shepherdstown, West Virginia); Arlen Osterbuhr (Minden Exchange Bank & Trust Company, Minden, Nebraska); Shane Pilarski (Alliance Bank, Francesville, Indiana); and Andrew West (Eagle Bank, Polson, Montana).

There being no further business, Chairman Gruenberg adjourned the meeting at 3:00 p.m.

Debra A. Decker
Federal Deposit Insurance Corporation
Executive Secretary
and Committee Management Officer
FDIC Advisory Committee on Community Banking

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

Martin J. Gruenberg
Chairman
Board of Directors
Federal Deposit Insurance Corporation