

The Meeting of the Advisory Committee of State Regulators

of the

Federal Deposit Insurance Corporation

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

October 18, 2023 - 1:00 P.M.

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

Committee members in attendance: Kevin R. Allard, Superintendent, Division of Financial Institutions, State of Ohio; Charles G. Cooper, Commissioner, Department of Banking, State of Texas; James M. Cooper, President and CEO, Conference of State Bank Supervisors, Washington, D.C.; Mary L. Gallagher, Commissioner of Banks, Commonwealth of Massachusetts; Greg Gonzales, Commissioner, Department of Financial Institutions, State of Tennessee; Kevin B. Hagler, Commissioner, Department of Banking and Finance, State of Georgia; Melanie G. Hall, Commissioner, Division of Banking and Financial Institutions, State of Montana; Dawn E. Holstein, Commissioner of Banking, Division of Financial Institutions, State of West Virginia; I. Lise Kruse, Commissioner, Department of Financial Institutions, State of North Dakota; Antonio P. Salazar, Commissioner, Office of the Commissioner of Financial Regulation, State of Maryland; and Mick Thompson, Commissioner, Banking Department, State of Oklahoma.

Bret Afdahl, Director, Division of Banking, State of South Dakota; and Thomas C. Fite, Director, Department of Financial Institutions, State of Indiana, were absent from the meeting.

Travis J. Hill, Vice Chairman, and Jonathan P. McKernan, Director, of the FDIC Board, also attended the meeting.

FDIC and FDIC contractor staff in attendance: Lisa D. Arquette, Daniel H. Bendler, Luke H. Brown, Suzanne L. Clair, Kymberly K. Copa, Debra A. Decker, Doreen R. Eberley, Sheila R. Finlayson, G. Chris Finnegan, Fasil Getachew, Shannon N. Greco, Mark L. Handzlik, Sean M. Healey, Nicholas S. Kazmerski, Thomas F. Lyons, Brandon Milhorn, Krishna K. Patel, Mark E. Pearce, Nikita Pearson, Ariana L. Rambuyan, Lisa K. Roy, Betty J. Rudolph, Camille C. Schmidt, Michael Shaheen, and Clarisse A. Young.

FDIC Chairman Martin J. Gruenberg opened the meeting and presided over the proceedings. Doreen R. Eberley, Director, Division of Risk Management Supervision (RMS), and the Committee's Designated Federal Officer, moderated the proceedings.

Introductory Remarks

Chairman Gruenberg welcomed members to the meeting, remarking briefly on the banking industry and economy and that he was looking forward to receiving the Committee's feedback on the agenda topics. He recognized FDIC Vice Chairman Travis Hill, who thanked the members, expressing that he too was looking forward to the discussions. The Chairman also acknowledged FDIC Board Member Jonathan McKernan.

Chairman Gruenberg then turned the meeting over to Ms. Eberley to moderate the meeting.

Ms. Eberley provided an overview of the agenda and introduced the FDIC staff presenters and panelists for each discussion item.

Economic and Banking Conditions Discussion

Ms. Eberley introduced the first panel. Camille Schmidt, Section Chief, RMS, and Krishna Patel, Section Chief, Division of Insurance and Research, provided briefings on the economic and banking conditions with particular emphasis on the economy and rising interest rates, funding and interest rate risk, and credit risk. Following the presentation, panelists invited members to comment and discuss any additional risks they have observed.

Commissioner Hagler opened the discussion by expressing concerns about commercial real estate (CRE) concentrations. Superintendent Allard also discussed CRE concentrations, particularly office buildings. He stated that he hoped banks were better prepared for this cycle given the conversations with bankers during the previous crisis, which focused on the importance of concentration risk management. Ms. Eberley added that there has been general improvement in risk management practices over time.

Commissioner Kruse mentioned the impact of products and services offered by nonbanks, such as mortgage lending, on the banking system. She discussed the importance of credential standards. Several members added that cyber risks are also concerning. Commissioner Holstein then asked about banker concerns regarding the Bank Term Funding Program. Ms. Eberley responded that the FDIC has heard remarks from bankers and has emphasized that from a regulatory standpoint, there is no stigma to using the Bank Term Funding Program or the discount window.

Ms. Eberley thanked the members and staff for the discussion.

2022 Financial Institution Diversity Self-Assessments

Nikita Pearson, Deputy to the Chairman for External Affairs and the Director of the Office of Minority and Women Inclusion, provided a briefing on the FDIC's 2022 Financial Institution Diversity Self-Assessments. She explained that the self-assessment is a confidential questionnaire on diversity, distributed by the FDIC to its supervised financial

institutions, in accordance with Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The purpose of the self-assessment is to help financial institutions assess their diversity practices and establish diversity programs. Ms. Pearson said that self-assessments would not only benefit the financial institutions, but also their surrounding communities. She noted that completion of the self-assessment is voluntary and is not included or considered in a bank's safety and soundness or compliance examinations or Community Reinvestment Act performance evaluation. Ms. Pearson concluded by asking the state regulators to direct any questions they may receive from their examiners or their banks on the self-assessment to the FDIC. Members followed up by asking questions about practices for promoting diversity and the availability of a state breakdown of banks that completed the self-assessment.

Ms. Eberley thanked Ms. Pearson for the presentation.

State-Federal Coordination

Ms. Eberley along with, G. Chris Finnegan, Senior Deputy Director of the Division of Depositor and Consumer Protection (DCP); Suzanne Clair, Associate Director, RMS; Thomas Lyons, Associate Director, RMS; and Luke Brown, Associate Director, DCP, provided updates various risk management and consumer protection matters.

Ms. Clair began this presentation, expounding on the information shared earlier by Ms. Patel and Ms. Schmidt on economic conditions, rising interest rates and funding and liquidity risk management. She also briefed the committee on updates regarding the Interagency Policy Statement on Funding and Liquidity Risk Management on the Importance of Contingency Funding Plans.

Next, Mr. Lyons

Then, Messrs. Brown and Lyons reported on the updated Interagency Guidance on Third-Party Relationships: Risk Management, issued on June 6, 2023.

Ms. Eberley and Mr. Finnegan wrapped up the presentations by commenting on the FDIC's return to banks and how it has progressed over the past year. Ms. Eberley also discussed training the FDIC has provided to state examiners.

General Discussion

Ms. Eberley then opened the floor for a general discussion of the covered topics.

Several members concurred that hybrid examinations are receiving positive feedback from bankers and that they are working out well for all parties involved. Commissioner Gonzales asked if the FDIC was working on any additional tools for third-party risk management to help community banks. Mr. Lyons stated that discussions are being held with the Federal Reserve and the Office of the Comptroller of the Currency (OCC) to possibly issue additional resources. Commissioner Gonzales followed up by inquiring if examiners will cite to the third-party risk management guidance if any issues are identified concerning third-party risk management. Mr. Brown noted that the guidance is not a regulation and examiners will not cite to the guidance. He emphasized that we would take appropriate action if we had concerns from a risk perspective. Ms. Eberley mentioned third-party relationship challenges that bankers are facing regarding deposits and lending. She also highlighted guidance that was issued by the FDIC, Federal Reserve, and OCC for community banks about how to conduct due diligence on financial technology companies.

Commissioner C. Cooper emphasized how important it is to train examiners. Commissioner Thompson concurred that training is important, and he appreciates the training provided by the FDIC for state examiners.

Closing Remarks

At the conclusion of the discussion, Ms. Eberley thanked the members and presenters for their participation and conversation. Chairman Gruenberg followed by expressing his appreciation to the members and staff for the excellent presentations and meaningful discussion.

There being no further business, the meeting was concluded at 2:53 p.m.

Debra A. Decker
Federal Deposit Insurance Corporation
Executive Secretary
and Committee Management Officer
FDIC Advisory Committee of State Regulators

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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