

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 via Webcast

November 7, 2024 - 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: Marlene Barkheimer, President and CEO, Farmers State Bank, West Salem, Ohio; Thomas Bates, President and CEO, Legends Bank, Clarksville, Tennessee; Troy Campbell, President and CEO, Altoona First Savings Bank, Altoona, Pennsylvania; Carolyn Crockett, President and Chief Credit Officer, First Security Bank of Nevada, Las Vegas, Nevada; Michael Culhane, President and CEO, North Cambridge Co-Operative Bank, Cambridge, Massachusetts; Lloyd DeVaux, President and CEO, Sunstate Bank, Miami, Florida; Anita Drentlaw, President and CEO, New Market Bank, New Market, Minnesota; Susan Horton, President, CEO, and Chairman of the Board, Wheatland Bank, Spokane, Washington; Warren Huang, General Counsel, Amerasia Bank, Flushing, New York; Trey Maust, Executive Chairman, Lewis & Clark Bank, Oregon City, Oregon; Dominik Mjartan, Vice Chairman and Executive Committee Member, OPTUS Bank, Columbia, South Carolina; April Perry, CEO and Chairman of the Board, Kentucky Farmers Bank Corporation, Ashland, Kentucky; Norman Plumstead, President and CEO, Honor Bank, Honor, Michigan; 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: Heidi Brown,

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Executive Vice President, Citizens State Bank, Sheldon, Iowa; and Robert James II, Executive Vice President, Carver State Bank, Savannah, Georgia.

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

FDIC staff in attendance: Shannon M. Beattie; Daniel H. Bendler; Luke H. Brown; Wantina (Renee) Cash; Kelly I. Davis; Angela Dean; Debra A. Decker; Doreen R. Eberley; Ramona Enoch; G. Chris Finnegan; Nick Frazier; Fasil Getachew; Jacob Goldston; Shannon N. Greco; Brian E. Guy; Chantal Hernandez; Sheritta A. Holland; Nicholas S. Kazmerski; Shawn K. Khani; Benjamin J. Klein; Thomas F. Lyons; Jake D. Meyer; Safisha Mance Thomas; Sumaya A. Muraywid; Ryan McCarthy; Jonathan N. Miller; Mitch E. Miller; Patrick M. Mitchell; Danayet M. Negash; Jhon E. Ochoa Espitia; Harrel M. Pettway; Chester W. Polson; Ariana L. Rambuyan; Lisa K. Roy; Betty J. Rudolph; Danielle M. Samelson; Camille C. Schmidt; Michael E. Shaheen; James P. Sheesley; Kayla J. Shoemaker; James S. Watts; Kile L. Willden; Smith T. Williams; and Meron Wondwosen.

Chairman Gruenberg opened the meeting and presided over the proceedings. Lisa K. Roy, Deputy Director, Operations Branch, Division of Risk Management Supervision (RMS), moderated the proceedings.

### **Introductory Remarks**

Chairman Gruenberg began by welcoming everyone and providing a brief overview of the agenda. He acknowledged Vice Chairman Hill, who thanked members for travelling to participate in the meeting and noted he looked forward to hearing member perspectives. Chairman Gruenberg then recognized Ms. Roy to proceed with moderating the program.

### **Discussion of Banking Conditions**

Ms. Roy introduced Camille Schmidt, Section Chief, RMS; and Chester Polson, Senior Financial Economist, Division of Insurance and Research (DIR), to provide an overview of current economic conditions and industry risks.

FDIC staff invited members to provide their thoughts on these topics and share their views regarding any other risks

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and areas of concern during the briefing.

Several members mentioned that depositors are paying greater attention to the interest rate environment and are demanding higher rates, resulting in the loss of some deposits. Members also noted the availability of wholesale funding sources to provide a liquidity cushion. Other members mentioned that deposit levels are lower due to customer balances declining due to increased living expenses.

Several members discussed the agricultural environment in their respective areas and highlighted some concerns.

Member Horton noted the number of banks in Washington state that are selling to credit unions and expressed concern about the impact that could have on federal and state revenues due to the differences in taxation. Member Perry discussed the impact of increased competition from credit unions for deposits, emphasizing the tax-exempt status of the credit unions.

Member Maust discussed deposit insurance and noted that, for some non-profits or commercial enterprises, it is easier to place funds at the largest institutions due to the perception of safety for funds over the insured limits.

Ms. Schmidt asked members about the technical savviness of their customers. Member Reigelsberger discussed customers using technology to find better rates, both locally and nationally. Several members discussed how increased use of technology has resulted in increased fraud. Member Campbell noted the importance of customer education in fraud awareness and identification. Member Plumstead mentioned the challenge of determining where and how to invest in technology. Member Horton noted how the use of technology has increased efficiency. Member Drentlaw discussed how some business customers have a false perception that community banks do not have the same technological resources as larger banks.

At the conclusion of this portion of the discussion, Ms. Roy called for a short recess at 10:15 a.m. The meeting resumed at 10:41 a.m.

**Discussion of Banking Conditions (Continued)**

The discussion continued with Ms. Schmidt and Mr. Polson focusing on loan growth and credit risk.

Members noted low but increasing delinquency rates in their institutions' loan portfolios. Several members noted strong loan demand in their markets. Member Barkheimer stated that loan demand was slow in the first part of the year but has increased in the second half. Member Drentlaw noted that some customers are delaying obtaining loans in anticipation of rates declining. Members Shoemaker, Drentlaw, and Huang mentioned unanticipated loan payoffs.

Members DeVaux, Mjartan, and Huang expressed concern regarding the high cost of insurance and the impact that is having on their customers and the economy.

Members discussed loan maturities and rate resets, stating that their institutions are working with their borrowers and negotiating rates. Other members mentioned how they stress test borrowers as part of underwriting or ongoing monitoring.

**Update from the Minority Depository Institutions Subcommittee**

Ms. Roy then recognized Betty Rudolph, National Director, Office of Minority and Community Development Banking; and Committee Member Warren Huang, General Counsel, Amerasia Bank, and a member of the Minority Depository Institutions (MDI) Subcommittee, to provide a summary update of the MDI Subcommittee meeting held the prior day, November 6, 2024.

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

At the conclusion of this report, the meeting stood in recess for lunch from 11:27 a.m. to 1:03 p.m.

**Updates from the Division of Insurance and Research**

The proceedings resumed with Ms. Roy introducing Kayla Shoemaker, Section Chief, DIR, to discuss a Request for

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Information on Deposits and provide an update on the Deposit Insurance Fund Restoration Plan. Ms. Roy also introduced Smith Williams, Section Chief, DIR; Nick Frazier, Senior Financial Economist, DIR; and Jacob Goldston, Senior Financial Economist, DIR, who provided an overview of findings from the 2022 Small Business Lending Survey Report.

Ms. Shoemaker began by providing an update on the Deposit Insurance Fund Restoration Plan before discussing the Request for Information on Deposits.

Member Richards indicated that he believed this Request for Information on Deposits will lead to more meaningful definitions of core and volatile deposits. Member Plumstead noted how some terms relating to deposits have changed over time.

Member Richards asked about payments to uninsured depositors, in the context of a recent bank failure. Chairman Gruenberg explained that uninsured deposits are subject to loss, but it may not be a complete loss. The FDIC evaluates the assets of the institution and estimates the recovery value for depositors. In this particular case, based on the FDIC's evaluation, the FDIC determined it was appropriate to provide uninsured depositors access to half of their funds at the time of the bank failure.

Members discussed the process for estimating uninsured deposits within their institutions. Members also discussed the perception that some banks would receive greater deposit insurance protection than others and the flight to safety that occurs because of this perception.

Member DeVaux inquired about payroll accounts being wholly insured. Chairman Gruenberg discussed the May 2023 report on Options for Deposit Insurance Reform, which included an analysis of the FDIC providing full insurance for certain business payment accounts.

Member Shoemaker mentioned the importance of public funds to community banks. Chairman Gruenberg noted the limitations on some of the data the FDIC has as it relates to uninsured public funds.

Mr. Goldston and Mr. Frazier then provided an overview of the findings from the 2022 Small Business Lending Survey Report.

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Members noted that the findings in the 2022 Small Business Lending Survey Report validated what they already knew and commended the FDIC on the quality of the report. Member Bates noted the increase in non-bank lending that has impacted community banks.

Members Drentlaw and Richards discussed Section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the impacts that could have on community banks lending to small businesses.

### **Supervision and Policy Updates**

Ms. Roy introduced Luke Brown, Associate Director, Supervision Policy Branch, Division of Depositor and Consumer Protection (DCP); Meron Wondwosen, Assistant Director, DCP, Sumaya Muraywid, Section Chief, RMS; Jake Meyer, Senior Claims Administration Analyst, Division of Resolutions and Receivership; and James Watts, Counsel, Legal Division, to begin the briefing on various supervision and policy matters and updates.

Mr. Brown began by covering the Notice of Proposed Rulemaking on Custodial Deposit Accounts with Transaction Features and Prompt Payment of Deposit Insurance to Depositors.

Members asked clarifying questions about the accounts covered by the proposed rule.

Ms. Muraywid then discussed the Joint Statement on Banks' Arrangements with Third Parties to Deliver Bank Deposit Products and Services. Member Maust noted his belief that many financial technology companies appear to lack an understanding of the banking industry and the relevant rules. He opined that this statement is necessary for the banking industry.

Ms. Roy then introduced Thomas Lyons, Associate Director, RMS; Sheritta Holland, Senior Examination Specialist, DCP; and Benjamin Klein, Supervisory Counsel, Legal Division to discuss the FDIC Statement of Policy on Bank Merger Transactions.

Member Richards asked about situations involving credit unions buying community banks. Member DeVaux asked if the presence of credit unions is a consideration when the FDIC is

analyzing the merger of two banks. Mr. Klein noted that when there are competitive considerations, other markets participants are reviewed, which may include credit unions.

Member Horton asked about disclosures to bank customers in situations where a credit union is buying a bank. Patricia Colohan, Associate Director, RMS, noted that the FDIC reviews related customer disclosures to ensure required information is included.

Ms. Roy then introduced Chantal Hernandez, Counsel, Legal Division; and Ryan McCarthy, Counsel, Legal Division, who, with Mr. Lyons, discussed the Notice of Proposed Rulemaking on Brokered Deposits.

Member Plumstead opined that the proposed rule may limit funding options for community banks.

### **Closing Remarks**

Chairman Gruenberg thanked the Committee Members and recognized the benefit the FDIC gains from their feedback. He acknowledged the members of the Committee whose terms are expiring, and he expressed his gratitude for their participation on the Committee.

There being no further business, Chairman Gruenberg adjourned the meeting at 3:09 p.m.

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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.

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