The Meeting of the Advisory Committee on Community Banking

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

April 3, 2013 – 8:31 A.M.

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

The members of the Committee present at the meeting were: Robert F. Baronner, Jr., President and Chief Executive Officer ("CEO"), Bank of Charles Town, Charles Town, West Virginia; Cynthia L. Blankenship, Vice Chairman and Chief Operating Officer, Bank of the West, Grapevine, Texas; Leonel Castillo, President and CEO, American Bank of Commerce, Provo, Utah; Jane Haskin, President and CEO, First Bethany Bank & Trust, Bethany, Oklahoma; Mark Hesser, President, Pinnacle Bank, Lincoln, Nebraska; James Lundy, CEO, Western Alliance Bank, Phoenix, Arizona; Ann Marie Mehlum, CEO, Summit Bank, Eugene, Oregon; Kim D. Saunders, President, CEO and Director, Mechanics & Farmers Bank, Durham, North Carolina; Dorothy A. Savarese, President and CEO, Cape Cod Five Cents Savings Bank, Orleans, Massachusetts; David Seleski, President, CEO and Director, Stonegate Bank, Fort Lauderdale, Florida; Alan Thian, President and CEO, Royal Business Bank, Los Angeles, California; and Derek Williams, President and CEO, First Peoples Bank, Pine Mountain, Georgia.

Carolyn "Betsy" Flynn, President and CEO, Community Financial Services Bank, Benton, Kentucky; Walter E. Grady, President and CEO, Seaway Bank and Trust Company, Chicago, Illinois; and Joseph G. Pierce, President and CEO, Farmers State Bank, Lagrange, Indiana, were absent from the meeting.

Members of the FDIC Board of Directors present at the meeting were: Martin J. Gruenberg, Chairman, Thomas M. Hoenig, Vice Chairman, and Jeremiah O. Norton, Director (Appointive).

Corporation staff who attended the meeting included: Ruth R. Amberg, Valerie J. Best, Richard A. Brown, Kymberly K. Copa, Carolyn Curran, Christine M. Davis, Patricia B. Devoti, Dianne E. Dixon, Thomas J. Dujenski, Doreen R. Eberley, Bret D. Edwards, Diane Ellis, Robert E. Feldman, George French, Andrew Gray, Shannon N. Greco, Marianne Hatheway, William H. Henley, Jr., Alan W. Levy, Christopher Lucas, Roberta K. McInerney, Jonathan N. Miller, Robert W. Mooney, Arthur J. Murton, Thomas E. Nixon, Richard Osterman, Tanya F. Otsuka, Bimal V. Patel, Mark E. Pearce, Sylvia H. Plunkett, Paul Robin, Claude A. Rollin, Barbara A. Ryan, Eric J. Spitler, Kristin A. Strong, and James C. Watkins,

William A. Rowe, III, Deputy to the Chief of Staff and Liaison to the FDIC, Office of the Comptroller of the Currency, was also present at the meeting.

Chairman Gruenberg welcomed the Committee members and said that the FDIC greatly valued its work and advice. He introduced the eight newest Committee members and gave an overview of the day's discussion topics. Chairman Gruenberg introduced Chief of Staff Barbara Ryan, who moderated the day's meeting.

Ms. Ryan introduced Arthur J. Murton, Director, Division of Insurance and Research ("DIR") and Richard A. Brown, Acting Deputy Director and Chief Economist, DIR, who led the discussion titled, "Follow-up on the FDIC's Community Bank Initiatives." Mr. Murton noted the FDIC released the "FDIC Community Banking Study" in December 2012, after the last Committee meeting, in which he and Mr. Brown gave the Committee a preview of the study's findings. He discussed the purposes behind the study, a data-driven attempt to document the trends in community banking over the previous 25 years. Mr. Murton also discussed the study's general contents, which include: defining what a community bank is; documenting the changes in their structure over 25 years; discussing their geographical distribution; comparing performance differences between community and noncommunity banks, and among community banks; reviewing capital formation trends; and summarizing the results of interviews conducted with a group of community bankers on the topic of regulatory compliance costs. Mr. Murton said the FDIC was interested in the Committee's feedback on any of the study's topics.

Mr. Brown provided an overview of the study's findings (referring to a slide presentation titled, "FDIC Community Banking Study"). Regarding the definition of community banks, he said previous definitions had typically been associated with smaller institutions. He said that the number of smaller institutions had declined during the study period of 1984 through 2011, by about 10,500 institutions. Mr. Brown noted that the decline in numbers did not mean the extinction of small institutions, however. The study found, he said, that small institutions survived more often, and merged and failed less often than most other size groups. Mr. Brown said the FDIC study did not rely solely on size, but also included other attributes commonly associated with community banking, such as: a focus on lending and core deposit gathering, as well as a limited geographic scope of operations.

After providing details about the definition, Mr. Brown observed that about 95 percent of banking organizations in 2010 were community banks, a percentage that had not changed greatly over many years. Mr. Brown said an important result of the FDIC research definition was it enabled some 330 organizations with total assets over $1 billion to be considered community banks, thus distinguishing the study from previous studies that relied solely on size. Mr. Brown said the FDIC had considered including information about local ownership of the bank, but noted that data was not easily accessible.

Mr. Brown also discussed long-term industry consolidation trends. He said that while all of the net consolidation since 1984 had occurred among banks with less than $100 million of assets (and particularly among those with less than $25 million of assets), one should not automatically conclude that these institutions were less successful than those that started out in one of the larger size groups. Regarding institutions with less than $100 million of assets in 1984, Mr. Brown said 34 percent of them survived as charters into 2011 (more than any other size group), and that they failed less often than most other size groups, merged less often than all other groups, and consolidated at about the same rate as others. He noted that over 2,500 of the 1984 small charters grew into larger size groups by the end of the study period.

Mr. Brown said about 2,500 institutions failed in the study period. Mr. Brown said a big driver of consolidation was related to the relaxation of geographic restrictions on banking that occurred in the late 1980s and 1990s. He said that after those deregulatory events there was a wave of mergers and intra-company consolidations within banking companies; he indicated about 80 percent of the number of institutions that exited the industry did so due to voluntary mergers and consolidations. Mr. Brown said this relaxation of geographic restrictions on banking was unlikely to be a driver of consolidation in the future. Mr. Brown said the FDIC reviewed the question of whether that consolidation was related to economies of scale, or that banks needed to be a certain size threshold (such as $2 billion or more) to achieve such economies of scale. He said the FDIC found that average costs among community bank commercial real estate ("CRE") lenders declined with asset size up to about $100 million, but there was not much cost reduction above that level. Thus, he said, the results did not confirm that economies of scale were an important driver of consolidation among community banks.

Mr. Brown also noted that new bank chartering activity had been cyclical over the study period, and that the FDIC anticipated new chartering would increase as the economy recovered. Mr. Brown said geography was another important element in understanding community banking. Community banks are widely distributed across the country, in metropolitan areas, micropolitan areas (towns between 10,000 and 50,000 residents), and rural areas, he said, while noncommunity banks are more focused on metropolitan counties. He noted that more than 85 percent of the U.S. population lives in metropolitan counties, that most of the gross domestic product is generated in them, and that they have grown faster than rural counties, of which some 50 percent experienced depopulation between 1980 and 2010. Thus, he said, a community bank focus on rural and micropolitan areas was not a recipe for growth. Mr. Brown said that community banks hold most of the deposits in rural and micropolitan counties, but have lost two-thirds of their market share of deposits in metropolitan areas, as noncommunity banks amassed an 86 percent share of industry assets.

Mr. Brown said the FDIC also compared earnings performance between community and noncommunity banks. He said noncommunity banks had experienced a sizeable earnings advantage in the 15 years before the recent financial crisis, which growth was driven largely by noninterest income. Mr. Brown observed that while noncommunity banks have been better able to generate income off the balance sheet, community banks have had an advantage in provision expenses and expense ratios, and earned more net interest income than noncommunity banks for most of the study period. Mr. Brown also compared financial performance using the efficiency ratio, or the ratio of overhead expenses to net operating revenue. Community banks' efficiency ratio deteriorated in the study period while noncommunity banks improved theirs in the pre-crisis years. Mr. Brown noted that net interest income was an important factor in the efficiency ratio and said that the recent period of low interest rates had a negative effect on community banks that tend to rely on deposit funding. Mr. Brown said, if one disaggregated the components of the change in the community bank efficiency ratio, more than 70 percent of the cumulative deterioration in the community bank ratio since 1998 could be explained by the decline in net interest income alone.

Mr. Brown said the FDIC also compared the long-term earnings performance and failure experience of community banks by five lending specialties (mortgage, consumer, CRE, commercial and industrial, and agricultural) and diversified (no specialty). He said that the highest performers in terms of return on assets were agricultural specialists, diversified non-specialists, and consumer specialists (which is currently a very uncommon specialty). The lower performers were CRE and multi-specialty banks. Mr. Brown observed that the percentage of community banks specializing in CRE lending had increased to 30 percent by 2006. He said that the average earnings of CRE specialists had been reduced by the crisis periods of the late-1980s and the last five years. Mr. Brown further noted that CRE specialized banks had failed at twice the rate of the average community bank during the study period as a whole. Mr. Brown said the study looked at capital formation and whether community banks have access to external capital sources. He said they found that retained earnings accounted for most community banks' additions to capital. He said capital formation through retained earnings required both: healthy earnings and an institution that does not grow faster than its market and its earnings. Mr. Brown said only 19 percent of community banks had raised external capital frequently during the study period. Usually, banks that raised capital from external sources were either troubled or preparing for an acquisition, he said.

Mr. Brown said the FDIC was interested in measuring regulatory compliance costs but noted that the Call Report does not distinguish between regulatory and non-regulatory costs. He said the FDIC interviewed nine community bankers on the issue. Generally, the community bankers reported they experienced a cumulative effect of regulations over time that had required them to hire additional staff, but all of them said they were unable to separate regulatory costs in an accounting sense without incurring a significant expense.

In response to a question from Member Seleski about the likelihood of new bank charters, Mr. Murton noted they were a cyclical phenomenon and there will likely be more demand for new charters as the economy improves. He noted that new charters raised a policy question for the FDIC because some areas that saw higher bank failure activity were those that had experienced greater new chartering earlier. Mr. Murton said a subject for future research would be to compare the tradeoff costs between allowing new capital to enter markets through new charters and the cost to already established banks through higher deposit insurance premiums caused by increased failure rates.

Member Savarese asked if the FDIC had identified any secular (as contrasted with cyclical) trends that warranted further research, such as the depopulation of rural areas. Mr. Brown responded that the shifts in community bank lending specialty lending groups, especially the shift to CRE lending, may warrant further research. He noted that the increase in banks engaged in a CRE lending specialty may be a trend for the community bank industry as a whole and that, while such lending is important to the local economies where it occurs, it can also be risky. Mr. Brown agreed with Mr. Murton that further research was warranted into the appropriate balance between the social benefits of increased CRE lending specialties as a source of credit and a source of economic growth in communities and the social costs of increased failures due to balance sheet concentrations in this line of business.

Member Castillo asked if the FDIC anticipated a continuation of the consolidation of smaller bank charters in metropolitan areas; he said he expected it would continue. Mr. Brown agreed there would be more consolidation but that the faster pace may not continue. He noted that, in studying community banks, the FDIC had also studied noncommunity banks, and how they had increased their share of industry assets (558 noncommunity charters held more than 80 percent of assets at the end of 2011, up from less than half in 1984). Mr. Brown described how the noncommunity banks had increased their asset share, including: acquiring (directly or indirectly) more than 10,000 charters in the study period; changing locations to fast-growing metropolitan areas; and shifting to fast-growing retail lines of business. He said it would be interesting to see if noncommunity banks maintained a similar pace of growth going forward, and that the outcome would have implications for consolidation rates among community banks.

Member Hesser commented about the FDIC study's limitation of the definition of community banks to two or fewer large metropolitan areas; he said that he viewed his bank as a community bank in model and management philosophy although it operated in four metropolitan areas. He also indicated that he did not favor looking for a definition of a community bank as a basis for imposing tiered regulatory requirements. Mr. Brown noted that the FDIC study definition, like all study definitions, had to set an arbitrary line in its effort to capture community bank qualities and that the definition was not intended to have any regulatory significance. He also observed that many statutes and regulations already used size-based definitions.

Member Mehlum complimented the study, particularly its lending specialization information, which she viewed as new, and the study's quantification of other information. She also shared her view that noncommunity banks experienced regulatory compliance cost economies of scale that community banks did not share. Member Mehlum said her view was based on her observation that the percentage of employee time spent on regulatory compliance had increased significantly from the mid-1980s to the present. In her estimation, about 3 percent of total salaries (plus or minus 2 percent) was devoted to compliance in the earlier period, but was about 30 percent today. She described how a 10-times larger bank in her market made a similar review and estimated the percentage of total salaries devoted to compliance to be about 15 percent. Member Mehlum shared a chart illustrating her conclusions with other Committee Members and FDIC staff (the chart is titled, "Salaries and Employee Benefits Expense to Average Assets, 1985-2011"). In response to a question from Director Norton, Member Mehlum said that her estimates were for all employee regulatory compliance time, without specific distinction between the types of regulations. Member Mehlum said that the regulatory burden was heavy on community banks and getting heavier and that the subject deserved continued regulatory agency attention. She observed that people entering the banking industry today see the current regulatory burden as just "part of doing business" whereas her longer perspective allowed her to see the increase in regulatory burden. Mr. Brown thanked Member Mehlum for her useful perspective and noted that people in the industry may be in a better position to understand their cost structure than agency economists. Member Williams said that he thought the 20 percent estimate of employee time devoted to regulatory compliance might be low. He indicated that his employees were too busy dealing with compliance to calculate the time spent, but added that the industry needed to improve its quantification of regulatory compliance costs. Member Seleski observed that comparisons between the 1980s and the present were difficult because technology had made banks much more efficient. He indicated that technological efficiencies gained over time would tend to obscure the increased time spent on compliance.

Member Lundy said he thought the community banking study was excellent and timely but indicated it may have paid insufficient attention to the impact of increased capital requirements, which he viewed as a critical issue. He inquired if increased capital requirements were put into the study's model retrospectively, whether the community bank model would be as successful? Member Lundy observed that a 9 percent capital requirement compared to a 6 percent one would require a bank to be 15 percent more efficient in order to provide the same return to its investors. He also noted that community banks had not historically had easy access to capital markets for capital formation. Member Lundy said he thought that adding increased capital requirements to the study's analytical elements would lead to more accurate conclusions concerning community banks, which are an important part of providing financial services in non-metropolitan locations. He added that a two-tiered regulatory system might be needed. Regarding capital requirements, Member Blankenship indicated that they should be based on a risk-based model; she observed that modeling the risk of a community bank and a "too big to fail" bank were very different. She inquired whether the FDIC was going to explore those differences further. Mr. Brown agreed that the business models of the two bank types were quite different and discussed some of the differences. He said it makes sense to look at both types of banks when considering competitive issues.

Member Haskin said she was interested in the increases in CRE lending the study found. She said that her small business lending experience in Oklahoma, which experienced oil booms and busts, was it was better to rely on real estate that a small business owns rather than accounts receivable, which is riskier. Member Haskin also inquired if the FDIC had seen any correlation between the repeal of the Glass-Steagall Act and the divergence in business models between community and noncommunity banks. She said her observation was that community banks continued with their business model after repeal but noncommunity banks pursued a different risk profile. Mr. Brown said the FDIC had noted similar correlations. He noted the study's comparisons used weighted averages, and that the very largest institutions dominated the noncommunity bank averages. Mr. Brown continued that the largest banks could generate a large amount of income off their balance sheets (from such things as capital market activities, servicing income and service charges on deposits). He said community bank non-interest income was also somewhat diverse but raised much less in the area of capital markets. Mr. Brown said the very largest banks ability to generate market-related revenue had been a competitive advantage to them in the decade preceding the financial crisis.

Member Savarese said that she had spoken to many community bankers and thought there was a convergence of several secular changes that might tip community bankers toward consolidation in the future. One change, she said, was the reinvention of the payments system outside the regulated banking industry. She said this took away a traditional function that banks provide on the liability side of their balance sheet. Member Savarese said that a second issue was the difficulty of adjusting to the new circumstances of mortgage lending, including the new Consumer Financial Protection Bureau ("CFPB") rules. She noted that a significant amount of mortgage lending was occurring outside of regulated institutions altogether. Member Savarese said many smaller institutions had indicated to her that they might have to exit mortgage lending because of the pace of regulatory change and onerous penalties of noncompliance. She also noted another cost of regulatory compliance was the cost of consultants, as well as the cost of employees. In light of the convergence of these issues, Member Savarese inquired what community banks' source of revenue would be in the future? She suggested that it might be productive to inquire with community bankers how these issues impacted their business models and future plans.

Member Mehlum observed that credit unions had increased their consumer lending rapidly, at the expense of banks. She said that banks may be moving into new lending specialties because of that loss of market share more than by strategic design. Mr. Brown said the FDIC study had shown a significant drop in consumer lending specialists among community banks, from about ten percent to less than one percent in the study period. Member Castillo said concern about compliance costs was causing community bankers to discuss withdrawing from the consumer side of the business for funding their balance sheets. He said such a change could have far reaching effects, particularly for the FDIC as the insurer of deposits.

Member Castillo asked if FDIC bank examiners were obtaining any insights into what smaller banks planned to do to address the higher costs of regulation, and doing business generally. Doreen Eberley, Director, Division of Risk Management Supervision ("RMS"), noted that some institutions were relying on outside assistance, including trade associations and FDIC technical assistance, in order to understand changes to the regulatory framework. To respond to shrinking margins, she said some banks were reaching for yield. In addition, she said, the FDIC was seeing institutions rely on third party providers to offer new products and services rather than hiring new employees. Member Castillo agreed that most community bankers were using most of the avenues that Ms. Eberley described. He expressed concern, however, whether all of those "little steps" would be sufficient to provide a satisfactory return on investment for potential community bank shareholders. Mr. Brown noted that interest rate margins had been tight and there had not been much loan growth. He indicated that, eventually, a period of economic growth, more lending opportunities and higher interest rates would improve conditions for community banks.

Chairman Gruenberg observed the economic environment had been very difficult since 2007 and that the financial crisis had been profound and was followed by a severe recession. He said there might be a tendency to focus on the recent past and assume it was prologue, but that there was reason to think the economy was moving out of the very difficult environment and there would be increased economic growth, demand for credit and an improved interest rate environment. Chairman Gruenberg said the community bank business model had been quite resilient during this extraordinarily bad period. He indicated that community banks that followed their traditional business model would benefit as the economic environment improves.

Chairman Gruenberg noted that most of the community banks that failed in the recent crisis had generally departed from their business model, and were high-flyers, trying to earn money quickly while relying on volatile deposits. Member Mehlum remarked that the response to the financial crisis rewarded the highest-fliers which had put the global economy at risk, and made them bigger and stronger. Chairman Gruenberg agreed that community banks had not been the cause of the crisis and said he hoped that community banks that followed their traditional business model would be rewarded in an improving economic environment. Member Williams agreed that the community banking model had been tested and shown to work. He expressed concern, however, whether the model would continue to work under what he described as the more restrictive regulatory environment resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and the CFPB.

At Chairman Gruenberg's request, Mr. Murton discussed areas of research the FDIC may pursue in the future. These included, he said, developing a better understanding of owner-occupied CRE lending, how community banks fund their growth, and monitoring consolidation trends. Mr. Murton said the FDIC would review its chartering policy and its implications, and try to obtain better information about regulatory compliance costs, perhaps including some additions to the Call Report. He said another area for further research was the impact of technological change on community banking. Member Savarese suggested the FDIC could also study two additional areas: multi-family housing and the overhang of student debt. Later, Member Savarese observed that a great deal of economic activity occurs outside of the regulated financial services industry and suggested that future FDIC studies try to consider that fact. Mr. Brown noted the FDIC was also continuing to monitor the potential for a bubble in farmland lending. In response to a question from Member Saunders, Mr. Murton said the FDIC would study larger, noncommunity banks in order to understand community banks. He said the FDIC would continue to explore whether the largest banks have advantages in regulatory compliance due to economies of scale. Member Saunders suggested that noncommunity banks could be good early indicators of another financial crisis. He also observed that they typically drive the community bank business model even if the community model is different.

Member Lundy inquired if the FDIC had considered how it should change its supervisory approach in light of the 470 bank failures in the recent crisis, particularly regarding CRE concentrations. Ms. Eberley said the FDIC had thought about it and referred to an FDIC Inspector General report that discussed community banks that had been heavily concentrated in CRE and either remained well-rated during the crisis or became troubled but improved. She said that those CRE concentrated banks had two characteristics that helped explain their good results. One characteristic, she said, was that, when they exceeded concentration thresholds that mandated heightened supervisory attention, the banks adhered to the regulatory guidance: they monitored market conditions, adjusted their internal concentration limits, and stress tested their portfolios. The second characteristic was that they heeded regulatory warnings and changed their practices when examiners criticized their actions. Ms. Eberley said the FDIC would focus on the heightened supervisory expectations when circumstances warranted, and ensure banks were following the risk management practices outlined in the guidance, particularly as risk is building.

Ms. Ryan introduced Sylvia H. Plunkett, Senior Deputy Director, Compliance and CRA Exams and Enforcement, Division of Depositor and Consumer Protection ("DCP"), who, with RMS Director Eberley, moderated the panel titled, "Next Steps: Outreach and Technical Assistance." Ms. Eberley noted that the FDIC's Community Banking Initiative had a variety of components, including outreach to bankers. The outreach efforts had identified four common themes of banker interest: 1) streamlining the examination process, especially the pre-examination stage; 2) improving communications between the FDIC and banks, generally; 3) expanding outreach and technical assistance; and 4) helping banks understand and keep up with the rulemaking process. The current panel's focus was outreach and technical assistance. Ms. Eberley and Ms. Plunkett described six videos being released that day, and those to be released later in the year, to provide bank directors, officers and employees with useful information on areas of supervisory focus and new rulemakings. Ms. Eberley said the videos would help new directors understand their responsibilities and regulatory expectations. The six videos being released the day of the meeting show a new bank director who learns about her responsibilities in that role and the FDIC examination processes.

Ms. Plunkett continued, describing a second set of videos to be released later in 2013. She said these videos, also for directors, would be somewhat longer than the first six and would address six topics: interest rate risk ("IRR"), third-party relationships, corporate governance, the Community Reinvestment Act, information technology ("IT"), and the Bank Secrecy Act ("BSA"). Ms. Plunkett also described a third set of more in-depth videos directed to the needs of bank officers and others who need to know better how to comply with various regulations. The first six topics in this third set of videos would address: fair lending; appraisals and evaluations; IRR; troubled debt restructuring ("TDR") and allowance for loan and lease losses ("ALLL"); evaluation of municipal securities; and flood insurance. Ms. Plunkett said that a final set of videos would focus on complex regulations as they are proposed; the videos would describe the requirements and expectations of the regulations for bankers so that they could be better prepared to comment about them. Ms. Plunkett said that, in addition to the videos, the FDIC would continue the Directors' College programs in the regions, industry-wide teleconferences and in-person outreach. Ms. Eberley then demonstrated how bankers could find various resources on the FDIC website and the Committee viewed one of the first set of director videos.

Member Seleski said that the FDIC's communications had definitely improved over the past five years, especially regarding supervisory expectations. Members Seleski and Lundy said that their staffs had found an FDIC seminar on TDR's very useful. Ms. Eberley noted that the TDR program had been developed in the San Francisco region and was the basis for other regions' outreach and the TDR video. Member Thian also complimented the in-person outreach his bank had received from the FDIC about its policies and procedures.

The Committee discussed various aspects of enterprise risk management. Member Savarese complimented the FDIC's recent communications and outreach efforts, but said there was a lack of clarity on FDIC expectations regarding enterprise risk management. The lack of clarity, she said, resulted in community banks engaging consultants, which had a negative effect on the banks' slim margins. Member Savarese suggested that FDIC outreach on enterprise risk management would be timely and of great interest. Ms. Eberley clarified that FDIC does not expect community banks to purchase or adopt formal enterprise risk management programs. Ms. Eberley and Member Savarese discussed the scope of the FDIC's expectations and whether they were limited to the IT examination or were broader. Member Savarese indicated she thought that the FDIC's expectations were not limited to IT but that the FDIC was actually examining to whether the institution has an overarching structure to manage risk. She suggested that the FDIC consider if its written guidance was up to date with its actual expectations.

Ms. Eberley said the FDIC examines under the framework of the Standards of Safety and Soundness, at 12 C.F.R. Part 364, which speaks to the FDIC's risk management expectations. She said she appreciated the feedback and that, although the FDIC's expectations have not changed, she would make sure to further consider if the FDIC needed to make its expectations clearer. Member Savarese clarified that she had not meant the FDIC's expectations had changed but that its expectations as to methodology --including formality, governance processes, and documentation-- had increased. In response to a question from Chairman Gruenberg, Member Savarese said that "enterprise risk management" was a term that FDIC examiners used and there was a lack of clarity about its meaning. She said the FDIC's classification of enterprise risk management as an IT sub-examination issue may lead to the false premise that it is only an IT issue. Member Savarese suggested the FDIC reassess its examination methodology so that institutions understand it is an enterprise-wide governance and policy and procedure issue. Member Hesser said that, in the Kansas City region, he had not heard FDIC examiners use the term "enterprise risk management" although it had been discussed by consultants in previous years. Member Blankenship also indicated the term was not used in the Texas area.

Member Castillo suggested that examinations could benefit if the FDIC ensured that there was more philosophical consistency from one year's examination to the next. He noted that, while all examiners appear fully qualified, they bring different backgrounds and expertise. As a result, he said, a bank can have similar facts and processes in two examinations but be criticized in the second one. He suggested that a bank that had an acceptable enterprise risk management and was in the process of amending it to respond to changed circumstances at the bank, should not be criticized. Ms. Eberley noted the FDIC's safety and soundness standards are risk focused. The risk management practices for audit systems, internal controls, monitoring of growth, monitoring concentrations, quality of earnings, and ALLL need to be appropriate to the size and complexity of the institution. She said the FDIC faced the challenge, in drafting guidance, between providing sufficient clarity and being too prescriptive. Member Blankenship indicated she favored more general guidelines because community banks have basic models which they customize to measure the risks presented by the business niches they have chosen. Member Lundy said that his bank's holding company was regulated by the Federal Reserve and had adopted a relatively formal enterprise risk management program, which he believed the Federal Reserve appreciated. He said the FDIC examiners at his bank acknowledged the holding company's program was a good way to frame the overall risk approach, but were not prescriptive or focused on the terminology used. Ms. Eberley said that examiners should focus on a bank's risk management practices and should discuss them in the examination report.

In response to a question from Member Baronner, Ms. Eberley said that the Directors' College curriculums varied somewhat by regions to respond to more localized issues (such as agricultural lending in the Midwest, IRR in the northeast, TDRs and ALLL in the West and Southeast). Member Baronner indicated that disengaged boards of directors may have contributed to many bank failures and inquired if the FDIC had considered testing board members against a basic curriculum. Ms. Eberley said that bank board members' understanding of their responsibilities was an important issue. She said that the FDIC had learned that, in reviewing applications for deposit insurance, it was important to have a frank and lengthy discussion with the organizing group so they would have a clear understanding of their responsibilities from the start. Member Baronner complimented a Directors' College program his bank had used in West Virginia and indicated that webinars were a cost-effective way for smaller banks to educate their directors. Member Mehlum complimented the FDIC's coordination with trade associations and agreed that telephone conferences and other FDIC outreach was a way for smaller banks to obtain some economies of scale.

Chairman Gruenberg noted that the Committee's earlier suggestions had been an impetus for the FDIC developing online video technical assistance. He agreed that, by providing technical assistance, the FDIC could help banks meet their regulatory obligations and, perhaps, address compliance cost issues, since it might relieve the need to hire consultants. Chairman Gruenberg invited further community banker input because he thought the subject merited continuing FDIC attention. Member Saunders said the FDIC's technical assistance had been excellent in the past and complimented the current effort. For future training, she suggested modules on: mobile banking, payment systems, deposit operations, and the use of social media. Member Savarese said the materials for bank directors were very helpful and inquired if there was a direct FDIC contact point for directors who had questions. Ms. Eberley said that, although there was no direct telephone line for bank directors, the FDIC encouraged banker contacts and that bankers could uses various methods, including a direct email address to her (directorrms@fdic.gov), the regional office staffs, the Ombudsman, and questions at outreach events. Member Baronner complimented the Ombudsman program which had provided helpful explanations of issues during the recent difficult years. He suggested the FDIC consider having the Ombudsman make annual visits to banks as part of its outreach program. Member Blankenship suggested that the FDIC consider including examples of "what not to do" in their training modules; she suggested such examples would be interesting to bankers as well as instructive. Members Williams and Lundy agreed and discussed benefits of negative examples. Ms. Eberley agreed that a "case study" can be helpful and that the FDIC uses a form of them in teleconferences when examinations reveal that multiple banks are heading down the same path and raising a common supervisory issue. Chairman Gruenberg said he thought the discussion had been very helpful.

The Committee stood in recess at 10:30 a.m. and reconvened at 10:51 a.m. that same day.

Ms. Ryan introduced the panel titled "Hot Topics in Supervision," which was moderated by RMS Director Eberley, Mark Pearce, Director, DCP, Thomas Dujenski, Regional Director, Atlanta Region, and Daniel Frye, Boston Area Director. Ms. Eberley noted that at the previous Committee meeting, Regional Directors gave an overview of the regions' risk management and consumer protection supervisory focuses. For this panel discussion, there would be more in-depth focus on managing third-party risk and IRR. Mr. Pearce noted the Committee had requested examples of what institutions should not do and said the first presentation would provide some of that. Mr. Pearce said that, as the economy emerged from the financial crisis, community bankers have reported weak loan demand and margin compression within the low interest rate environment. In light of these circumstances, he said, some institutions were looking for opportunities to generate earnings and revenue and some had considered partnerships with third parties who would offer products to the bank's customers. The relationships, Mr. Pearce said, raised issues of third-party risk, which Mr. Dujenski would speak about further.

Mr. Dujenski noted that banks enter into third-party relationships because they are outsourcing certain operational functions or to offer products the banks do not originate. He emphasized a bank board and management needs to have a robust program for managing the risks that are present in such situations, such as: strategic risk, reputational risk, credit risk, and the possibility of violating applicable laws and regulations. While many institutions do a good job of managing the various risks, Mr. Dujenski said the FDIC had seen examples of banks that had not. He discussed three examples. The first example Mr. Dujenski discussed involved a bank that entered into relationships to process automated clearinghouse ("ACH") transactions. He noted that the small community bank started the relationship on a small scale but eventually had relationships with 20 third-party payment processors which covered over 10,000 merchant customers, such that the bank was processing over 5 million transactions per month worth billions of dollars. Mr. Dujenski said the bank's processes and procedures failed to grow commensurate with the relationship's growth. He noted that the institution did not have sufficient due diligence processes in place for new merchants. It also did not have: adequate training and expertise, internal controls, or IT operations appropriate for the transaction volumes. For example, although the bank's policy indicated they would review each new merchant, the bank, in fact, had only one employee managing and supervising the huge numbers of transactions. Mr. Dujenski said the lack of proper oversight resulted in: the bank dealing with high risk originators, including payday lenders; and for illegal gambling operations, which resulted in a significant volume of unauthorized transactions and potentially fraudulent transactions. Mr. Dujenski said the bank's failure to properly manage its third-party relationship led it to violate the BSA, and to be involved in potentially unfair or deceptive practices. He said the FDIC pursued an enforcement action to correct the deficiencies.

Mr. Dujenski discussed a second example where a bank did not properly manage its third-party relationships involving prepaid cards. In this case, the bank was insufficiently aware of the party it was dealing with or that the prepaid cards were used to facilitate payday lending. Mr. Dujenski said that the cards also had overdraft features where the overdraft amount allowed was small and mostly consumed by fees. Mr. Dujenski said the bank did not engage in sufficient due diligence or monitoring, and it had IT system deficiencies. He said the bank violated the BSA and there were unfair or deceptive practices concerns because of undisclosed fees associated with the prepaid cards. The fact that the bank's name was on the cards also raised reputation risk for the bank. The third example Mr. Dujenski described involved a bank's offer of identity theft protection to customers through a third party. This raised unfair or deceptive practices issues because the bank failed to disclose that all the bank's customers received the identity theft protection without opting in and paying a fee; in addition, customers who paid the fee were led to believe they were receiving various additional services when, in fact, they had to take additional steps to receive those services.

Mr. Dujenski noted that third-party risk was not new and discussed four guidance documents on the subject. A 2008 Financial Institution Letter ("FIL" 44-2008) provided broad-based guidance. Later in 2008, the FDIC issued guidance on payment processor relationships in FIL-127-2008. Mr. Dujenski said the summer 2011 *Supervisory Insights* journal included an excellent article discussing basic terms and supervisory expectations. The FDIC published a fourth guidance document in 2012 (FIL-3-2012) focused on payment processor relationships. Mr. Dujenski discussed certain best practices that are further discussed in the guidance publications. He said it is important, before entering into a third-party relationship, to perform a thorough risk assessment of the third parties; this would include checking for public complaints against the entities and actions taken against them. Mr. Dujenski said that bank boards should be actively engaged in the third-party decision-making and should approve the contracts the bank enters. Regarding contracts, he said, they need to fully spell out the parties' relationships and responsibilities, including how the bank may exit the relationship. Further, Mr. Dujenski said banks need to have good oversight and internal reviews of the third party programs.

Mr. Pearce noted that problematic third-party payment processors can migrate geographically and may target smaller institutions that are particularly stressed and looking for fee income opportunities. He said third-party relationships can raise both compliance and risk management risks for a bank. Mr. Pearce said he thought that, in the sphere of community banking, the primary risk to consumers was the failure of community banks to effectively monitor third-party relationships, either in front-end due diligence or ongoing monitoring. Mr. Pearce noted that ongoing third-party monitoring was important because, as illustrated by the examples just discussed, the third party can change the structure of the product offered, change the relationship, or change the numbers of entities with whom the bank is working. Each of these changes can have a significant impact on the bank's risk exposure.

Member Baronner inquired if it was a fair assumption to believe that a mortgage lending business was qualified if it was allowed to sell to Fannie Mae and Freddie Mac. He referred to a mortgage lending business that had actively marketed its services to community banks and later went out of business after fraud allegations were lodged against it. Mr. Dujenski said that banks should engage in sufficient due diligence regarding any potential third-party provider to ensure that they are comfortable with the provider's financial condition and reputation. He mentioned that the FDIC guidance documents he had described provided a list of items to help with due diligence and to mitigate risks. Mr. Pearce added that, in Member Baronner's example, the fact that a firm was a Fannie Mae approved seller servicer would not be sufficient due diligence in itself; a bank would need to understand the business of a particular broker. He added that brokers now need to be licensed in the national mortgage loan originator system, which allows banks to track the history of a broker, determine their experience and where they have worked. Mr. Pearce said the ultimate judgment is for the bank to make; his point was that banks need to take the third-party risk seriously and mitigate it. Member Williams suggested that a bank may begin its third-party due diligence with state and national trade associations, which perform due diligence on financial strength and other matters; although not a replacement for a bank's due diligence, it is a good place to start.

Member Savarese noted the Committee had earlier discussed core system providers. She noted that there were so few of them and their power was so great in the marketplace, they were able to impose long contracts with onerous terms on community banks. She indicated that the substantial de-conversion penalties the core systems providers imposed inhibited banks from changing providers and was worthy of FDIC review. Member Savarese said that core systems providers and mortgage providers also gave community banks regulatory risk because they do not keep their systems compliant with regulatory changes.

In response to Mr. Pearce's inquiry, Member Blankenship said that she had noticed an increasing level of solicitations from third-party vendors. She added that she thought that social media would play a big role in how community banks interacted with their customers and asked if the FDIC had noticed any trends in that regard. Mr. Dujenski said the FDIC had seen a lot of relationships evolve, particularly regarding social media. He said community banks were generally conservative in choosing new parties to deal with and often communicated within their trade associations to obtain information. Mr. Dujenski said that examiners ask to see a bank's processes and procedures to confirm that they are considering the compliance, legal, reputational and other risks in making their decisions. Mr. Pearce said the FDIC had worked with other Federal Financial Institutions Examination Council agencies to develop guidance on the use of social media. He said the general theme was that the consumer protection and other requirements that apply to other customer communication channels also apply in social media situations. Mr. Pearce added that institutions should also consider the social media's additional risks, such as "phishing" problems. He said the FDIC was aware that community banks were concerned about competing with larger institutions on technology and that a separate afternoon panel would address those subjects.

The Committee then discussed IRR. Ms. Eberley observed that the FDIC had seen institutions "go a little longer" on the duration of assets in the current economic environment and that the FDIC wanted to ensure that banks fully understood the implications of their IRR in a rising interest rate environment and had viable risk mitigation strategies in place. Ms. Eberley noted that Mr. Frye was a leading FDIC IRR expert and was heading two groups developing IRR training modules for the FDIC Director's College and a longer technical assistance video. Mr. Frye noted that banks had a growing appetite to accept additional IRR to stave off declining net interest margins ("NIM") and that banks needed to monitor and manage IRR, and to have IRR mitigation and exit strategies in place, for the time when interest rates increase. Referring to a handout titled "Managing Interest Rate Risk," he noted that bank earnings had improved since the onset of the financial crisis but remained well below pre-recession levels. He observed that the earnings improvement had been largely the result of lower credit costs, lower loan loss provisions, and a high volume of mortgage sales, trends which are likely not sustainable.

Mr. Frye said that the prolonged low interest rate environment continued to drive down NIM, which is the primary driver of community bank earnings (he said interest income constitutes 80 to 90 percent of their net operating revenue). He said that the environment had been especially challenging to commercial banks but was also starting to affect savings banks, which have longer term asset structures on their balance sheet (and were distinguished in the charts of his presentation). (He noted there are about 6,000 commercial and about 1,000 savings banks in the United States presently.) As a result of the lowered NIM, Mr. Frye said that banks had "reached for yield" and increased their long-term asset concentrations to record levels since the recession. He noted that commercial banks had increased the percentage of their median long-term earning assets (compared to total earning assets) from 14 percent in 2000 to 27 percent at the end of 2012. Savings banks, which have traditionally had long-term concentrations, had also increased their long-term concentrations (from 41.2 to 46.7 percent).

Mr. Frye then referred to a chart that illustrated community banks' increasing levels of concentration in long-term assets, those that mature or reprice in over 5 years. The chart distinguished among banks that had 30-40 percent long-term asset concentrations, those between 40-50 percent, and those over 50 percent. Mr. Frye said that in 2012, more banks had concentrations over 40 percent, than had 30 percent concentrations in 2004, the last time an interest rate cycle had occurred where the Federal Reserve Board increased interest rates. The significance of the increased long-term concentrations, he said, was that, in the last interest rate cycle, banks that had over 50 percent long-term concentrations lost 47 basis points from their NIM. Mr. Frye said that banks with only 30 and 40 percent long-term concentrations also experienced a significant decline in their margins. An additional source of concern in 2013, he said, was that banks have much lower NIM than existed prior to the previous cycle. Mr. Frye indicated there were also concerns on the liability side of banks' balance sheets. Referring to the handout, he indicated that a tremendous amount of money had flowed into banks' non-maturity accounts during this period of low interest rates and that a significant amount could flow out once interest rate differentials return. Mr. Frye said that this potential movement added another dynamic for banks to manage when interest rates increase. Referring to a chart that compared community bank long-term asset concentrations at year-end 2006, 2008, 2010 and 2012, Mr. Frye said that one could see an increasing exposure to long-term assets across the U.S. now (compared to a northeastern U.S. regionalization in 2006). He said that the increased long-term asset concentrations across the country were a source of concern which encouraged examiner focus on IRR.

Mr. Frye observed that IRR comes in a variety of forms, including option risk, basis risk, re-pricing risk, and yield curve risk. It is important, he said, that bank directors and managers identify and understand the various types of risk that are embedded in their balance sheets so they can ensure systems are in place to respond to them. Mr. Frye said that examiners focus on all aspects of IRR, based on the complexity and size of the bank. He indicated that a bank's IRR management process needs to meet four criteria. First, a bank's board must establish risk limits and risk mitigation policies and practices. Second, a bank's IRR process must be able to identify and measure IRR. Third, he said, a bank's IRR management process must monitor and report in a timely way whether the bank is conforming to the IRR limits established by the board. Fourth, he said, there must be adequate internal controls and audit functions. Mr. Frye stressed that IRR management was a continuous process that required a long-term focus. The goal, he said, was to ensure banks have prudent levels of IRR and to consider IRR mitigation and exit strategies for when interest rates rise. In order to be prepared for the next increase in interest rates, Mr. Frye said the FDIC was encouraging banks to take various prudent steps, including stress testing their balance sheets. He said it was important for community banks to take a long perspective regarding IRR so that they will have sufficient earnings to absorb losses in a future recession.

Mr. Frye indicated the various concerns he discussed helped motivate the FDIC to develop IRR training resources for banks: some resources to respond to bank directors' need for general understanding, while others provide more in-depth technical assistance for bank management. Directors, he said, need to build a general IRR knowledge and understand their bank's IRR profile. With that, they can perform their IRR management responsibilities, which include: overseeing the establishment of an IRR policy; establishing risk tolerances; establishing lines of authority and responsibilities; monitoring the bank's IRR position; ensuring prudent IRR levels; understanding the impact of IRR mitigation strategies and ensuring the independent review of the process. Mr. Frye suggested that the FDIC's training resources could be shown at a bank board meeting where all the directors are gathered.

Mr. Frye discussed IRR measurement methods, noting that there are a variety of measurement models and that a bank must choose a model appropriate to its own IRR. He said many banks are dependent on short-term models but need to consider longer term models if their balance sheet has a longer term IRR exposure. Mr. Frye said that examiners will focus on several aspects of a bank's IRR modeling, including: interest rate changes; assumptions about bank deposits; and prepayment estimates. He added that the FDIC's training resources will have a similar focus. Mr. Frye also discussed the importance of an independent review and validation of a bank's entire IRR process. He observed that the review process was comprehensive and included the testing of assumptions made in the IRR measurement model. He noted that an incorrect assumption could have a significant impact on a bank's ability to navigate a changing environment. Mr. Frye emphasized that community banks should explore the full range of IRR mitigation tools. These tools include: asset restructuring through sales and purchases; changing the bank's product mix; pursuing strategic growth and other initiatives; and engaging in various hedging strategies. Mr. Frye noted that successful hedging mitigation required a robust understanding of the bank's embedded risks.

In concluding his prepared remarks, Mr. Frye said that community bank NIM would likely continue to remain under pressure in the current interest rate environment. He indicated that many banks would respond to NIM compression with increased holdings of longer-term assets while their liability structure shifted sharply to shorter-term and non-maturity deposits. Thus, Mr. Frye said that it was important for banks to measure and monitor IRR, develop appropriate risk limits, and consider reasonable mitigation and exit strategies before interest rates increased.

Member Baronner asked whether there were any empirical studies about prepayment speeds on mortgage backed securities ("MBS") or residential mortgage products in a very low interest rate environment. Mr. Frye said there are published sources projecting dealer prepayment speeds on existing MBS assuming various levels of interest rate shocks and that those could be consulted. He added, however, that many community bank portfolios hold unique mortgages tailored to their customers which may be less likely to refinance (compared to conforming mortgages). Thus, a community bank would need to consider a qualitative factor about its portfolio in addition to the public information on prepayment speeds. Member Hesser suggested that the CFPB's new qualified mortgage rules would have the effect of imposing more IRR on banks because balloon mortgages will be discouraged. Mr. Frye agreed that some banks had relied on balloon mortgages as an IRR management tool and said that the FDIC was working with the CFPB on the qualified mortgage rulemaking to provide some relief on the matter. He suggested that the new rules would continue to allow that IRR management use, perhaps with some new limitations. Member Hesser and Mr. Frye also discussed the issue of the cost of funds to community banks in the future.

Member Savarese inquired whether the FDIC had seen any trends regarding community banks using hedging and swaps to manage IRR. Mr. Frye said that, while hedging and swaps were a viable tool, only a small percentage of community banks used them. He cautioned that a bank must fully understand its risk before using these tools. Member Seleski said that his bank used derivatives or swaps on ten percent of its loans to help manage IRR but noted that other banks are making loans at fixed rates and holding them in their portfolio. He suggested that those competing banks were perhaps taking on too much IRR and, because of competition, driving other banks to be less prudent regarding IRR. Member Seleski inquired whether the FDIC had a role in discouraging such excessive IRR. Mr. Frye said that the FDIC used a forward-looking approach to supervision and that it relied primarily on moral suasion, to encourage banks to consider their IRR and manage it. He agreed that there was a growing willingness among banks to hold longer-term assets, but noted there were various resources to assist in considering alternatives. Mr. Frye noted that banks faced hard decisions since managing IRR could impose short term costs in an already difficult earnings environment.

Member Haskin inquired about the treatment of short-term balloon real estate mortgages on bank balance sheets under the proposed Basel III capital rules. She said it was difficult to determine whether risk weights would be based on the amortization term or the note's balloon maturity, and that the issue was a key point for community bank capital. Mr. Frye said that the proposed rule was based on the maturity of the note, when it ballooned. However, he said that the FDIC was concerned about the proposed treatment's effect on community banking and had received about 2,500 comments about the issue. He added that the regulatory agencies were continuing to negotiate the terms of the final rule.

Member Lundy suggested that a useful area for data collection and research would be the refinance or prepayment speed of owner-occupied real estate mortgages. He said that his experience was that actual loan duration was shorter than borrowers or bankers expected when entering a loan contract because the market is so dynamic that borrowers find that they need to sell, refinance, or expand sooner than they had expected. Shorter actual durations, Member Lundy said, would support bankers accepting more blind extension risk. He said he had not seen any good analysis of this duration question and suggested a research focus on commercial loans for under $5 million. Mr. Frye agreed that the question was good but thought that it would be difficult to draw conclusions since such commercial loans were unique in the ways they discouraged prepayment. Member Lundy said that CRE lending was so important for community banks that it was worth building a model for gathering information now in order to obtain useful conclusions 10 years from now. Member Mehlum said that her bank had used swaps on CRE and other loans, and had done so in 2005-6; her bank appreciated that it had mitigated its IRR but was frustrated that it had experienced a significant reduction in its NIM as a result. Mr. Frye said he encouraged community banks to take a long view and recognize that there is a tradeoff of lower earnings now in order to be in a better position when a normalized interest environment resumes. He observed that banks with higher long-term asset concentrations will likely experience a reduced economic value in a more normal interest rate period.

Mr. Pearce said the FDIC had heard from many bankers about competitors reaching for yield by extending maturities, which could create better short-term earnings opportunities but also involved significant long-term risk. Mr. Frye added that it took some courage for bankers to stand up to their board and tell them they would take their earnings more slowly over a longer period rather than pull them all forward to the present. He indicated banks that took such an approach and maintained their underwriting standards would have less risk in a future recession and that margins would eventually recover.

Member Savarese inquired whether the FDIC shared its concerns about the extended low interest rate environment with the Federal Reserve. Mr. Frye indicated that FDIC Chairman Gruenberg served on the Financial Stability Oversight Council ("FSOC") with members of the Federal Reserve and that the topic was likely to be one of the FSOC's concerns. Chairman Gruenberg said that the extended low interest rate environment was one the Federal Reserve had likely spent a lot of time on. He suggested that Committee members could ask Federal Reserve Governor Duke that question after her luncheon remarks. Vice Chairman Hoenig said the question being asked is, when monetary policy is highly accommodative, how does one deal with the misallocations that might be created by that broad macroeconomic stimulus? He asked if one can have supervisory authorities step in and stop banks from doing what all of the incentives are driving them to do? He said history is replete with examples where it did not work, so it is a difficult problem.

Mr. Pearce asked if Committee members had seen other issues or risks that warranted further FDIC or industry attention. Member Savarese described an emerging risk that involves a closed loop debit card issued by a non-bank that uses the ACH system to access accounts in financial institutions. She said that it was just beginning to be studied in Massachusetts but her understanding was that, if fraud was involved, banks would have to bear any loss. Ms. Eberley and Mr. Pearce indicated that the FDIC had an interdivisional committee exploring the issue. Members Lundy, Mehlum and Savarese discussed the issue of "patent troll" attorneys claiming that software used by core systems providers infringed on patents. They indicated that core systems providers claimed the infringements were not their fault and were not very helpful in defending against the claims. Member Lundy indicated that many banks settled the lawsuits because the cost of defending them was so high. Member Savarese noted that many banks that settled were bound by confidentiality agreements which inhibited responding to the problem. Ms. Eberley said that the FDIC had received many communications on the subject which was being considered on an interagency basis.

Member Savarese said that she believed that cybersecurity was a significant risk, greater than IRR or credit risk to financial institutions, especially small ones. She indicated that institutions were reluctant to discuss cybersecurity problems because such discussions imposed reputational risk. Member Savarese also indicated that third-party core systems processors were reluctant to provide adequate support. Member Haskin said there were many instances of wire fraud in Oklahoma caused by customers' failure to maintain adequate computer security. Outsiders gain control of customer computers and generate wire transfers, which often appear to be legitimate. Member Haskin said banks were being encouraged to institute protective responses, such as procedures to call back customers. Vice Chairman Hoenig agreed that the number of fraudulent wires was accelerating quickly. He said that banks' reputational risk concerns discouraged reporting and inhibited a systemic response. Vice Chairman Hoenig also noted that it was important for banks to educate their customers about the need for protective responses, such as callbacks to confirm wire transfers. Member Savarese noted that some sophisticated frauds defeated callback programs by providing "spoofed" telephone numbers. She noted that the combined effect of cybersecurity problems (including wire fraud, ACH fraud, and distributed denial-of-service attacks) presented a significant challenge. Vice Chairman Hoenig said he thought that the banking industry and regulators needed to do more to educate the public about why security measures have to be put in place and that internet access cannot be quite as easy as the public may desire.

The Committee stood in recess at 12:21 p.m. and reconvened at 1:49 p.m. that same day.

Ms. Ryan then introduced Jonathan Miller, Deputy Director, DCP, and George French, Deputy Director, RMS, who moderated the panel titled, "Current Policy Issues." Mr. Miller spoke about the new mortgage lending rules and community banks. He noted that the mortgage market is quite different than five years ago and that, after the housing bubble burst, Congress passed the Dodd-Frank Act. That Act requires creditors to make a reasonable and good faith determination, based on verified and documented information, that the consumer has a reasonable ability to repay a loan according to its terms. Congress also established a presumption of compliance for a certain category of mortgages, called "qualified mortgages" ("QM"). Mr. Miller said the Dodd-Frank Act required the CFPB and other regulators to be mindful of the differences between community and other banks when drafting regulations. He said the FDIC had developed a good understanding about community banks from its role as primary Federal regulator of community banks and through its various outreach efforts, including the Committee. He said the CFPB had taken community bank concerns seriously in developing its rules. As a result, Mr. Miller said, the CFPB's mortgage rules provide certain exceptions to requirements for community banks that minimize the burdens that are imposed on them and, in certain circumstances, reduce current burdens.

Referring to a handout titled "New Mortgage Rules and Community Banks," Mr. Miller discussed certain definitions used in the CFPB regulations, including "community bank," "rural community bank," "rural," and "underserved" (he noted the definitions were somewhat different than the FDIC research definitions). Mr. Miller said about one-third of all banks meet the definition of "rural community bank," which definition includes: having $2 billion in assets or less; originating no more than 500 first-lien covered transactions in the previous year; holding mortgages in portfolio; and (regarding "rural") making more than 50 percent of its first lien mortgages in rural or underserved areas in the preceding year. Mr. Miller said that it would not be necessary for banks to do research to determine if the counties in which they made mortgages met the definition of rural, the CFPB would list all the counties that met the definition (and would also list the counties that met the definition of underserved).

Pursuant to the Dodd-Frank Act, if a mortgage is a QM there is a presumption that the lender complied with its duty to make the ability to repay determination regarding the borrower. Mr. Miller said that one way a QM is defined is by product characteristics, including: no negative amortization; no interest-only loans; no balloons (with some exceptions for community banks); a term of no longer than 30 years; and no more than 3 percent in points and fees. In addition, QMs must meet certain common-sense underwriting characteristics, including: reliance on fully documented and verified income; the monthly payments of adjustable rate mortgages ("ARM") must be calculated based on the maximum cost that they could reach within 5 years; and, generally, there must be a 43 percent maximum debt-to-income ratio ("DTI"). Mr. Miller said there were important exceptions to the DTI requirement. He said that, if a mortgage is eligible for purchase by

Fannie Mae or Freddie Mac, or is eligible for Federal Housing Authority or Veteran's Administration insurance, then the DTI limitation is not imposed. He said that another exception was that certain balloon-payment loans would be treated as QMs if they are originated and held in portfolio by small creditors operating predominantly in rural or underserved areas. Mr. Miller said that a key and contentious issue had been what level of legal protections would be given to originators of QMs: a safe harbor or a rebuttable presumption. He said the CFPB rule made distinctions based on the cost of the loans originated. "Prime" QM – those with interest rates up to 150 basis points above the average prime offer rate—would be given a legal safe harbor. Higher priced (or subprime) mortgages –those with interest rates over 150 basis points above the average prime offer rate- would receive a rebuttable presumption that they had met the CFPB's product and underwriting standards. Mr. Miller noted that the rebuttable presumption gave originating banks significant protection against lawsuits claiming the bank failed to meet its obligations to make ability to pay determinations. Mr. Miller said the CFPB had also proposed a rule that would give community banks a safe harbor for all loans with an annual percentage rate up to 350 basis points above the average prime offer rate. He said that, if that proposed rule is made final, then the new regulatory standard would actually be better for community banks than the current law.

Mr. Miller also discussed exceptions to the CFPB's mortgage servicing rule. He said if an institution serviced 5,000 or fewer mortgage loans then it would be considered a small servicer and the many provisions of the servicing rule would generally not apply to it. Mr. Miller indicated he believed that the CFPB's exception was based in part on distinctions the FDIC had made to it between the problems caused by high volume-low margin servicers and the fewer problems associated with the lower volume-higher touch servicer model employed by many community banks. Mr. Miller noted that the mortgage servicing rule, when it applied, was very process-oriented, establishing time periods in which certain actions must be done. He said the mortgage servicing rule was another example of where many community banks would not need to be concerned about the effects of a new rule.

Mr. Miller also discussed the mortgage loan originator ("MLO") rule which was designed to ensure that loan officers and mortgage brokers do not have an incentive to place borrowers into mortgages with higher costs than those they could otherwise qualify for. Mr. Miller described some of the exceptions that the CFPB had included in its rule that would be helpful to community banks. One of the exceptions, he said, was to exclude bank executives or others who originate ten or fewer mortgages in a year from the rule's limitation on compensation derived from mortgage profits. Even for MLOs who originate more than ten mortgages in a year, Mr. Miller noted that the CFPB rule allows these MLOs to take part in a general profit-sharing bonus pool (outside of a qualified retirement plan) if the bonus the MLO received constituted less than ten percent of a person's total compensation. Mr. Miller said that this was another example of the CFPB relaxing standards from the current law.

Referring to a chart titled, "Mortgage Rule Exemptions and Flexibility by Bank-type," Mr. Miller described the ways in which the CFPB rules would provide rule exceptions to community banks, rural and underserved community banks, and other banks. Mr. Miller said there was concern among community banks that they would have to exit the mortgage lending business because of the impact of the new mortgage lending rules. He said he hoped community banks would conclude that, given the various exceptions he described, they could continue in the mortgage lending business. Mr. Miller said that community banks would need to consider how they would be affected by the new rules. He also said the FDIC and other regulators were working on compliance guides for the industry, examination procedures, and training examiners to ensure they understand the new rules and their exceptions.

Member Williams indicated he thought the CFPB definition of "rural" was too restricted. He noted that many, clearly rural parts of Georgia would not be considered rural under the CFPB definition because they were located in counties that bordered metropolitan statistical areas. Member Blankenship later agreed that the CFPB definition of rural was too restrictive. A request for a "show of hands" indicated that none of the Committee members' banks would meet the CFPB definition of rural. Mr. Miller noted that the CFPB definition of rural was broader than an earlier Federal Reserve Board definition and suggested that interested bankers share their concerns about the definition with the CFPB. Member Hesser observed that, under the CFPB definition of rural, it would be possible for two banks to operate in the same town, with one meeting the "rural" definition while the other one did not. He expressed the opinion that consumer confusion could occur because the "rural" bank would be allowed to offer different terms than the non-rural bank.

Member Williams said he thought that there had been a problem with subprime loans in the mortgage market and the CFPB response was generally good. He said that balloon mortgage loans from community banks had not been a source of the problem; rather, they were a good product which worked well for many years. Member Williams said small, community banks were frustrated that the CFPB rules would make such balloon mortgages more difficult to make. He also expressed concern about the rules' effect on the renewal of "in-house" non-conforming loans. He said he thought it would be difficult for borrowers to meet the 43 percent DTI standard and that a different standard should apply for such renewals.

Member Savarese inquired how the CFPB mortgage rules, particularly the 43 percent DTI maximum, would impact the ability of community banks to lend responsibly to persons with low and moderate income. She said that her bank, working with the Massachusetts housing finance agency, made loans that would not meet the 43 percent DTI requirement, but had other features, including mortgage insurance in the case of job loss, which protected against loss. Mr. Miller said the FDIC had given significant thought to low- and moderate- income lending. He observed that minorities and low- and moderate- income borrowers had been disproportionately hurt by earlier aggressive lending practices. Mr. Miller said that a goal of the new rules was to minimize the number of loans that fail because they were not properly underwritten. In response to Member Savarese's particular question, Mr. Miller said he thought that, first, the CFPB proposals would give additional leeway to state housing finance agencies. He said he would check on the matter and respond to her after the meeting. Second, he said that while many state housing finance agencies engage in creative programs, no program is sufficient to meet the markets' needs for access to credit. Mr. Miller said that the market and its loan products, as a whole, needed to be safe for low- and moderate- income borrowers, and that was the goal of the CFPB rules.

Mr. French then spoke about new regulations required by the Dodd-Frank Act concerning permissible investments. He said that the new regulation required banks to base their investment decisions on their due diligence understanding of the security being purchased and not rely on its credit rating. Mr. French said the FDIC's expectations for a bank's due diligence would depend on the size, complexity, and risk of its investment portfolio. He observed that the new rule represented a learning curve for both bankers and examiners and that the FDIC would work with them to clarify expectations. He said the FDIC would produce a technical assistance video on due diligence for municipal securities. Mr. French also noted that the FDIC does not expect every bank to engage in extensive stress testing. He said the FDIC's stress testing expectations can be found in existing guidance and deal with commercial real estate loans over certain thresholds, subprime loans, and interest rate shocks. Generally, Mr. French said, the FDIC expects banks to understand their risk exposures, to measure those risks, and to control the risks appropriately. In most case, he said, a community bank would not need to engage a consultant or buy an expensive stress testing model.

Mr. French then spoke about a proposal by the Financial Accounting Standards Board ("FASB") that would change how credit losses are recognized and measured for certain financial assets (principally loans) in the allowance for loan and lease losses ("ALLL"). He noted the proposal would change the model for setting aside loan loss reserves, from an incurred loss model to an expected loss approach. Mr. French noted that the incurred loss model depended on an event that triggered the recognition of credit losses on the financial statements while the expected loss approach would call for banks to maintain an allowance equal to the present value of future cash flows that are not expected to be collected. He said the FASB proposal represented a fundamental change in practice and warranted community bankers' attention. Mr. French said the banking regulatory agencies had supported moving toward the expected loss model of reserving for the ALLL and that the FDIC would likely send a comment letter to the FASB on the proposal.

In response to a question from Member Castillo, Mr. French and Robert Storch, Chief Accountant, RMS, spoke about how banks might reserve for expected losses. Mr. Storch noted that FASB had recognized that there was not a single method that should be used by all institutions; rather, it recognized that there may be different methods used, even within a single bank. The objective, he said, was to estimate what cash flows the bank does not expect to collect and to use that as the ALLL estimate. Mr. French said that banks should gather data on their historical charge-off experience for various types of loans, then engage in vintage analysis to determine when losses tend to occur over time, and then make a judgmental adjustment to the reserve based on the portfolio's quality. Mr. Storch added that a bank should look at the loss experience on the particular types of loans in its portfolio over the lives of these loans (rather than limiting the analysis to annualized loss experience). For example, he said, for retail loans of five or more years that are amortizing, particularly if they are collateralized, losses tend to increase in years two, three, and four, but then decrease over time as they amortize. Mr. Storch said a bank may compare the average age of the loans in its portfolio against such a loss curve. He added that banks would also need to factor forward-looking information into their analysis. For example, he said, if there were consensus indicators of adverse economic conditions on the near-term horizon, a bank might determine its expected losses over that period would be higher than its long-term average. Mr. Storch noted that community banks may not currently have data about their life-of-the-loan loss experience and regulators should help address that issue, as well as setting expectations for institutions.

Member Castillo observed that the FASB proposal would increase the number of subjective judgments that a bank would have to make in setting its ALLL and that would increase the opportunities for misunderstandings. He noted that the FDIC and bankers had devoted considerable effort to developing a common understanding about the accounting standards for troubled debt restructurings, but a substantial amount of subjectivity remained. Mr. Storch agreed that the ALLL was probably the most judgmental area of accounting for community banks today and that the judgmental nature would increase if the FASB's proposal is adopted. Mr. Storch said the new approach would also challenge bank examiners who would be reviewing a bank's documentation of its ALLL decision-making and whether the bank's judgments are reasonable. He said all of the banking regulators would need to put forth a concerted effort to send a consistent message to banks and examiners. He noted that community banks' local accounting firms may not have developed sufficient technical expertise in estimating expected losses.

Member Williams said his experience was that he could make a more reliable forward-looking projection about a specific credit than for an entire portfolio. He also indicated he saw some amount of duplication in the forward-looking aspect of the FASB's proposal and the impairment analyses he is already doing. Member Williams also remarked that making forward-looking predictions could become speculative in nature. Mr. Storch noted that there was a limit on how far one could look forward and have the forecast remain reliable enough for accounting purposes. He noted that the FASB's proposal specifically indicates that banks' expected loss estimates should not be worst-case scenarios. Rather, he indicated the focus was on the lifetime loss experience for particular types of loans, adjusted for the effect on collectability of reasonable and supportable forecasts about future conditions. Mr. Storch emphasized that it was important for banks to document their judgments so that bank examiners could use the documentation as a basis for a dialogue with the bank about its allowance methodologies. In response to a question from Member Saunders, Mr. Storch said the FASB's proposal, if adopted, would replace five different models of impairment measurement that currently apply to different types of financial assets. In response to another question from Member Saunders, Mr. Storch said that, under the FASB's proposed approach, real estate collateral and guarantor protection for loans would continue to be considered in the analysis of expected credit losses.

Member Saunders inquired about the rationale underlying the FASB's proposal. Mr. Storch said the proposal was meant to address criticisms that the current impairment model delays the recognition of credit losses on loans and securities because of the trigger requirement that a loss be incurred before an allowance can be established. He observed that there were many signals in the 2007-2008 time period that substantial risk existed in loan portfolios, but the increase in risk could not be reserved for because the accounting standards did not allow the consideration of future events. Mr. Storch said the consideration of forward-looking information under the FASB's proposal would permit the ALLL to be increased as risk built up in the loan portfolio. Thus, because ALLL levels would be higher when economic conditions begin to worsen, banks would not experience as big a hit to their earnings as they experienced five ago under the current accounting standards.

Member Lundy inquired if the FDIC had information about the historical weighted loss rates on all community banks' product categories. Mr. Storch said the FDIC was trying to determine if it could look at annualized loss rates in order to estimate lifetime loss rates. He said that such an estimate would help community banks begin complying with the new standard, which would not be effective before 2015, if adopted. Member Saunders noted that community banks had sustained lower loss rates than the rest of the industry and suggested that the FASB proposal might not achieve the objective Mr. Storch had discussed. Mr. Storch indicated he thought that the FASB proposal would result in some additional loan loss reserves for community banks because the current standards do not allow the consideration of forward-looking information. He said that most bankers at a recent program in which he had participated estimated that their ALLLs would increase about 25 to 50 percent if the FASB's proposal was adopted. Mr. Storch noted that the change in the level of the allowance would vary by the type of lending banks did. He said banks that focused on short-term lending would probably have lifetime losses not much greater than their annualized losses. However, banks that were longer-term lenders may experience a greater impact under the FASB's proposal. Mr. Storch said the FDIC and the FASB were continuing to gather information about the impact of the proposal. He recommended that community bankers provide comments to the FASB about those aspects of the proposal relevant to their institutions.

Ms. Ryan then introduced Luke Brown, Associate Director, DCP, and William Henley, Jr., Associate Director, RMS, who moderated the panel titled, "Mobile Banking Issues." Mr. Brown remarked about the widespread use of smartphones and noted that they will be a key driver of growth in mobile payments and banking. He discussed a variety of statistics about mobile banking. Mr. Brown said a study indicated that 29 percent of smartphone owners used their phone to check bank account balances or engage in online banking in 2012, up from 18 percent in 2011. Another study found, he said, 53 percent of underbanked mobile phone users own at least 1 smartphone, which is similar to the 51 percent of all consumers. Mr. Brown said that 17 percent of underbanked consumers planned to use mobile banking in the next year, about double the rate of consumers overall. Mr. Brown said 37 percent of community banks offered mobile technology in 2012, more than double the number in 2010. He also observed that community banks had identified mobile banking as their most important IT-related project next year.

From the FDIC perspective, Mr. Brown noted that, while mobile technology provides consumer convenience and access to financial services in real time, the FDIC was also considering how it might improve access of underbanked persons to mainstream financial institutions. He noted that the FDIC Advisory Committee on Economic Inclusion had chartered a subcommittee on mobile financial services to look at how mobile technology might be used to facilitate economic inclusion, which is a continuing priority for Chairman Gruenberg and the FDIC. Mr. Brown said the FDIC was considering how mobile technology could be used as a conduit for underbanked persons obtaining full relationships with traditional banks. The FDIC was inquiring into how consumers use mobile technology, what their preferences are regarding it, and what their financial education needs were. Mr. Brown noted that it was important to remember that consumer protection laws that apply to other business channels also apply to mobile technology; he said consumers need to be reassured that protections are in place in the mobile world and that their personal information is protected. He said the FDIC monitors mobile technology developments in the evolving marketplace and was hopeful that the technologies can be used to increase the range of consumers who have access to financial services from a traditional bank.

Mr. Henley observed that 97 percent of banks use the internet as a banking delivery channel while 37 percent of community banks use mobile as a delivery channel; thus, a saturation point had been reached with the internet but that mobile delivery provided an opportunity for expansion. He noted that community banks are considering introducing mobile banking both because competitors offered it and because consumers requested it for its convenience in making transactions. Mr. Henley reviewed various sources of FDIC published guidance that were available and said the FDIC was interested in hearing whether (and what) additional guidance would be helpful. He said that it is important for banks to identify risks associated with any emerging technology and to mitigate those risks.

Member Mehlum said that her bank had launched mobile banking, limited to seeing account balances and making transfers among them (without the ability to make deposits). She likened her bank's mobile banking approach to how it conducted online banking and inquired if there were any additional safety and soundness aspects to mobile banking that should be added to the bank's existing ones regarding online banking. Mr. Henley observed that mobile banking was a delivery channel, as the internet was, and that both delivery channels presented a wide range of possible functions that banks could choose to offer their customers. He recommended that a bank's risk program identify what functions it offered in mobile banking and what corresponding protections have been built into the system. Member Baronner inquired what additional steps a bank should take if it added the function of allowing a customer to photograph a check to make a deposit ("consumer remote deposit capture"). Mr. Henley indicated that examiners would expect the bank to articulate an understanding of the risks introduced by this additional function and the protections the bank has taken to ensure customer data is not compromised. He referred to a *Supervisory Insights* journal he had discussed for a more complete review.

Mr. Brown noted that interagency guidance was being prepared concerning social media use. He said institutions had been reluctant to use social media to interact with customers because they were unsure which supervisory issues they should be concerned with, and that banks were interested in a uniform discussion of what others were doing. Mr. Brown said the guidance would not impose new requirements, but would provide a discussion of issues arising in the changing environment that could be helpful, especially to smaller institutions that may not have the resources to consider the matter independently. In response to a question from Member Haskin, Mr. Brown said the guidance would remind institutions how the compliance regulations apply to social media, without imposing new requirements. Member Hesser said it would be helpful to provide banks with any agency guidance being given to examiners on mobile deposit capture, such as per item deposit limits, daily deposit limits or similar information. Mr. Henley agreed and indicated that the instructions to examination staff was the same as what is contained in the public guidance documents that he had previously described to the Committee. He said that, if the FDIC or other agencies provided an update it would not add new requirements but would gather them into a single, comprehensive document. In response to a question from Member Lundy, Mr. Henley said he was not aware of any significant fraud incidents involving mobile payments mechanisms. He said that consumers appeared to approach mobile banking with an amount of caution, using mobile banking primarily for inquiries and simple payments.

Member Haskin said she thought the banking industry was on the verge of a technology revolution that would transform how business is done within five years. She said that technology might be the reason that banks consolidate in the future. Member Haskin said that her bank, which had previously outsourced to multiple different third parties, had to consolidate all its outsourcing under its core processor in order to begin mobile banking, so that systems integrated properly. She said one of her greatest frustrations was that the core processor did not provide new mobile products quickly enough for her bank to keep up with its competitors. She noted, for example, that two nearby competitors offered remote deposit capture for retail customers which she could offer only commercially. Member Haskin said that a Federal program was offering smartphones to low- and moderate- income individuals in Oklahoma at low cost thus increasing how widely available they were. She said that ATMs had been the greatest new technology in banking for many years and that mobile technology was a similar (or greater) change. She said that banks that embrace mobile technology would likely become more efficient; she noted that her bank added four mobile technology products and its computing costs remained relatively the same. Member Haskin noted that her bank had saved money on postage by using e-statements, which she thought were secure.

Member Haskin said mobile banking deserved further study and careful thought. She noted that mobile technology products were expensive decisions, especially for community banks. She said that FDIC guidance on directions to pursue and strategic planning would be helpful to banks that were struggling with what technology to purchase. Mr. Henley said the December 2012 *Supervisory Insights* journal article touched on issues such as mobile technology functionality and security, and the classes of devices that are available. Although the article was not exhaustive, he said, it provided footnotes that could be pursued for further research. Member Haskin said FDIC input on the security of the smartphone platform would be helpful; her opinion was that it was more secure than most bankers believed and such information would help bankers guide their decisions. Member Saunders said that mobile banking technology would likely change the branch banking model since foot traffic into branches would probably decrease and banks will need to consider how to keep customers. She said that it would be helpful if the FDIC could share information about what developments it is seeing across the industry. Member Haskin observed that community banks were losing market share in payment systems to start-up companies which are not regulated. She expressed concern that consumers had been lulled by the safety of the payment system within regulated banks, and hoped that consumer losses would not occur because of a breakdown of such a non-regulated company. Mr. Brown agreed that the safety of payment systems was an important issue and said that the FDIC was consulting with other agencies about it.

Mr. Brown invited members to discuss what mobile banking features they offered or were considering. Member Blankenship said that her bank offered similar banking capabilities on mobile devices as online. She said that security was her bank's primary issue, including a concern about the effect of a huge fraud. Member Blankenship said her generation may be less comfortable with new technological advances than others and was concerned that vendors may "tell us what we want to hear" to make bankers comfortable. Member Haskin observed that many higher-end customers have adopted mobile banking technologies because they like the convenience and can afford the technologies. She said it may be a mistake to think that only younger customers are interested in mobile banking.

Mr. Henley invited feedback on the supervision of large third-party services with respect to mobile banking issues. Member Savarese said that she thought the topic was important and that Committee members would have information to share but that there may be a lack of time in the current meeting. Chairman Gruenberg said the topic had ongoing importance and could be put on the agenda for the next meeting after FDIC staff had given more thought to the issues and how to frame them for discussion.

In parting, Chairman Gruenberg asked if conditions for community banking had improved. Member Seleski said that conditions were better but that the issue of margin compression extending into 2015-16 was a concern. He thought that larger banks, with robust non-interest income, were in a better position to face a long-term low-interest environment than many community banks. Member Mehlum said that the economy was better and that communicating and working with the FDIC had improved. She said that she was concerned about the community banking model and the growth of giant banks that control the industry. Member Williams said that, in Georgia, there was still concern about the effects of loss share agreements and what would happen when they ended. He said that these concerns were having a negative impact on real estate values even though, theoretically, the negative effects were not supposed to occur. Member Saunders said that overall conditions were improving and there was an uptick in loan demand, but that unemployment remained very high for African-Americans, and low- and moderate- income people in underserved markets. She said there was concern about those sectors and how they would receive financial services. Member Saunders also expressed concern about minority-owned depository institutions and community development financial institutions and their business models in light of new regulations, including new capital rules.

Chairman Gruenberg thanked the Committee for their input.

There being no further business, the meeting was adjourned at 3:16 p.m.

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
And Committee Management Officer
FDIC Advisory Committee on Community Banking

Minutes

of the

Meeting of the FDIC Advisory Committee on Community Banking

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D. C.

Open to Public Observation

April 3, 2013 – 8:31 A.M..

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