FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON COMMUNITY BANKING

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MEETING

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TUESDAY,
MARCH 28, 2017

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The Advisory Committee met in the FDIC Boardroom, 550 17th Street, NW, Washington, DC, at 9:00 a.m., Martin J. Gruenberg, Chairman, presiding.

PRESENT:

MARTIN J. GRUENBERG, Chairman, FDIC
TIFFANY BAER PAINE, President/CEO, Security Bank USA
RICHARD T. BEARD, CEO/President, People's Utah Bancorp
ADRIANA M. BOEKA, President/CEO, America United Bank
ROGER BUSSE, President/CEO, Pacific Continental Bank
ASIF DAKRI, Vice Chairman/CEO, Wallis State Bank
DAVID J. HANRAHAN, SR., President/CEO, Capital Bank of New Jersey
JACK A. HARTINGS, President/CEO, The Peoples Bank Co.
CHANDLER HOWARD, President/CEO, Liberty Bank
DANNY J. KELLY, President/CEO, Hometown Bank of Alabama

ARVIND A. MENON, President/CEO, Meadows Bank
MARY ANN SCULLY, President/CEO, Howard Bank
JOHN M. TOLOMER, President/CEO, The Westchester Bank

STAFF PRESENT:

BARBARA RYAN, Chief of Staff, FDIC
RUTH R. AMBERG, Assistant General Counsel, Legal Division
RICHARD A. BROWN, Deputy Director and Chief Economist, Division of Insurance and Research
DOREEN EBERLEY, Director, Division of Risk Management Supervision
DIANE ELLIS, Director, Division of Insurance and Research
GEORGE FRENCH, Deputy Director, Division of Risk Management Supervision
JANET R. GORDON, Associate Director, Division of Depositor and Consumer Protection
ROBERTA K. McINERNEY, Deputy General Counsel, Legal Division
RAE-ANN MILLER, Associate Director, Division of Risk Management Supervision
MARK PEARCE, Director, Division of Depositor and Consumer Protection
LUKE W. REYNOLDS, Chief, Outreach and Program Development, Division of Depositor and Consumer Protection

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9:02 a.m.

CHAIRMAN GRUENBERG: I'd like to welcome everybody to this meeting of the FDIC's Advisory Committee on Community Banking. We have a full agenda for today and we'll try to keep on schedule and finish up about three o'clock so everybody can meet their travel arrangements.

Let me just give you a brief overview of the agenda for today's meeting. We're going to start off with a brief update on the FDIC's Community Banking Initiative, including the de novo outreach events we've conducted around the country, as well as recent changes to our pre-exam planning process.

And as part of that presentation, the Division of Insurance and Research is going to provide us a preview of the paper they've been working on that's based on a 2016 Summary of Deposits survey.

The paper analyzes recent deposit data, finds that banks as a whole attracted more deposits

last year while operating fewer offices in the aggregate, although the number of community bank offices around the country actually increased last year, interestingly.

That presentation is going to be followed by a presentation on our recently issued Handbook for Organizers of De Novo Institutions, which is sort of an easy, how-to, step-by-step overview of how to start a new institution.

That handbook addresses topics such as developing a sound business plan, raising financial resources, recruiting competent leadership, each of which is designed to ensure that the new institution is positioned to succeed.

We'll then have a brief break. And following the break, we'll have a presentation on the EGRPRA report that the three federal banking agencies presented to Congress last week, including
an overview of the key recommendations made in the report.

And after lunch, I think we're going to

have an interesting discussion of some recent credit risk trends and supervisory expectations that we outlined in a recent article in our Supervisory Insights journal. The article is going to focus on three loan categories: commercial real estate, agriculture, and oil- and gas-related lending.

And then, finally, at the end of the day we're going to have a session reviewing our Youth Savings Pilot Program and symposium. Since launching the Youth Savings Pilot Program in 2014, the FDIC has been exploring approaches that banks and their partner schools can use to combine financial education with the opportunity for students to open a low-cost savings account.

On October 21st of last year, the FDIC held a Youth Savings Pilot Symposium, bringing together representatives from nearly all of the 21 banks participating in the pilot, along with many of their non-profit and school partners. It was really a terrific event.

The commitment of the bankers to the

program was really quite impressive. And we really feel as if it's really a productive path toward effective financial education for young people, which is why we thought it might be something that would interest you as well.

Given our experience with this group, we know you won't be shy in sharing with us your views and thoughts, and we certainly encourage you to do that. I think that's my two cents for this morning, and I'll now turn it over to Barbara Ryan.

MS. RYAN: Thank you, Chairman Gruenberg. And good morning and welcome, everyone. So we're going to start our first session on the Community Banking Initiative update. And Chairman Gruenberg went through the entire agenda, so I'm not going to belabor this. But just to introduce everyone, we have Doreen Eberley, director of our Division of Risk Management Supervision, and Mark Pearce, director of our Division of Depositor and Consumer Protection.

And Doreen and Mark are going to provide

that update on Community Banking Initiatives as it applies to the examination process.

And then Diane Ellis is the director of our Division of Insurance and Research. Together with Rich Brown, chief economist, they're going to give us a preview of the paper that they've been working on that analyzes the Summary of Deposits data from last year.

So, with that, I will turn it over to Doreen and Mark.

MS. EBERLEY: Thank you. Good morning, everybody. I thought I'd give a quick update on some of the follow-on activities from our Community Banking Conference that we held last April. And I'll cover three topics there first.

The first is our de novo round table event. So, we had started those before our last meeting. We'd held two. Since then, we've held two more, one in Atlanta at the end of November and one in Dallas at the beginning of March. And they went just as well as the first two, really good feedback. Nice full days, lots of questions, lots

of good discussion.

Our final two are scheduled for Kansas City on May 11th, and Chicago on May 31st. And I have to just say, again, another thank you to both John Tolomer for the idea, and David Hanrahan and John both for participating.

The banker panels that John suggested, that we have panels of de novo bankers come participate in these events and talk about their experiences going through the process, what they wish somebody had told them at the time, what advice they would give to an organizing group starting up an institution, has really been the hit of the sessions. Really great conversation.

And it actually gave us a lot of good information as we developed our handbook in terms of just thinking about the things that we needed to address in the handbook that bankers had questions about. So it was just a tremendously beneficial activity, and we look forward to the last two events.

The second thing I would mention is our

follow-on activities for developing the next generation of bankers. So, you'll recall we had the panel discussion about management succession and some of the challenges.

We had a university professor on the panel, Diane led this panel, talking about the activities as his school. And we thought that was something we should follow up on and try to have some more conversation.

So we did do that, and we spoke about it last time. Just at the end of October, we hosted a round table with university and colleges that offered banking degrees to explore ways that we could partner the schools with the banking community, and particularly community banks that are in need of bankers. You know, how do you get that next generation in the door and aware of the community banking career, and how they might go about getting involved.

So, since that meeting, we've held several follow-up meetings with the national trade associations to explore some next steps. And I'll

give you a highlight of the things that are under discussion.

First is developing a national directory of all colleges, universities, and business schools that offer banking programs. And one thing that might be useful to hear a little bit from you about today, time permitting, is do you think that -- is it useful to have a directory of schools that offer banking degrees as opposed to, you know, just schools that would have students that might be interested in working in community banks? And the benefits of having somebody graduate with some experience in the community banking field and some knowledge of community banking. That would be helpful for us.

We talked about ways to identify additional schools for potential partnerships and have some ideas there. And then ways to facilitate internships that would provide beneficial experience for college students that are interested in a banking career, and some talented summer assistants for community banks. So, kind

of a win-win.

There's been a lot of interest in the idea of a directory, as well as the FDIC hosting additional round table events to help identify additional schools for potential partnerships. And the idea of internships has been very well received. And we're developing right now kind of a concept proposal for an internship program, how we would envisions something like that playing out. And I think by our next meeting we should have some more concrete information to share on that topic with you.

The third topic I'd mention is we've been actively engaged in planning the Interagency Minority Depository Institution Biennial Conference, which will be held next week in Los Angeles. And we have a large number of bankers registered. I'm very much looking forward to that event. We'll see some of you there.

And two other activities that I'll mention that'll be covered separately in later portions of the program today. First, in

December, as the Chairman mentioned, we issued for comment our Handbook for Organizers of De Novo Banks. Photo op. I'm very excited about that, and we got some great comments. We'll talk about that in the next session.

And then second, we finalized an issue of the EGRPRA, or Economic Growth and Regulatory Paperwork Reduction Act, report. So we'll talk further about that later. Turn it over to Mark.

MR. PEARCE: Great. Good morning, everyone. I want to also provide a quick update on the route we've taken with our pre-exam planning process. I think I've mentioned this at prior meetings, where over the last few years we really have gone to take a look at ways we can improve the pre-exam planning process so we can gain a better understanding of the institution in advance of the onsite portion of the examination, so that we can be more efficient and effective for the onsite portion of the exam.

So we implemented that a few years ago. And we've gotten overwhelmingly positive feedback

that it really has improved the onsite compliance exam, and reducing the situations where there's a lot of information requests on the onsite portion or places where there's concerns about whether all the material that was provided was actually utilized in the exam process. And so I think we've really seen some positive benefits from that program.

As a result of that, the amount of time that we've done offsite as a proportion of the overall exam has increased. And so we really have been able to streamline the onsite portion.

The one piece of feedback we've gotten from bankers has been, that's all good, but the pre-exam part of the process has a lot of questions and document requests up-front. So a lot of information to gather in advance to make that process effective.

And so we've taken a look and had a team working on trying to figure out ways that we could refine that process. We still want to make sure we achieve the overall goals, but we want to refine

it and see if there are ways to reduce the questions, make sure we're just asking for information that we're actually going to use in the exam process.

And so the team has completed its work, and we'll be moving forward later this year with a process that will take the pre-exam and move it into two phases. The first, will take an overall look at the bank's compliance management program overall and just get an understanding of the bank and its risk profile. And then as we get closer to the onsite portion, we'll have a second request that just targets in on the specific items that were going to be within the scope of the examination.

So as a result of kind of bifurcating this process, we think we can reduce the amount of data requests and the information requests while still retaining the overall goals of the pre-exam planning process.

So hopefully that'll be an improvement on that one issue. But, overall, I think the program's been really successful in improving the

efficiency of the onsite portion of the exam.

MEMBER TOLOMER: If I might. From personal experience, one of the gratifying things about serving on this committee is we've had this discussion over the last few years about streamlining the process. And my personal experience, and our bank experience, was that we did provide all of the information that was requested.

It was reviewed, there was a questionnaire that you requested about a 20-minute conference call for clarification, which we had no problem with. I'd much rather clarify while you're doing your work than come in and ask for the clarification.

And one of the key things from my perspective was that your people came in, they were prepared, nothing was lost. That used to be one of the things that was very frustrating. You'd come onsite and, oh, I didn't have this, can you print that, can you print this.

There wasn't any of that. You worked

in a conference room, you did your job. It was very thorough. When you had questions, you would bring the bankers in, get the answers.

We had a weekly, which I've instituted with our state regulators, a weekly basis to understand where do we stand today, is there something we can correct while you're here and at least have the dialogue.

And so we had a very good experience. It was open dialogue, it was meaningful. We walked away with some improvements that we have implemented as a result of that.

And so the process was very constructive. And it was constructive because your real, true professionalism was, "We've done our work, we understand your bank, we have some questions for clarification. Let us go to work, and here are some recommendations."

And so it worked really well. So I think, you know, from a standpoint of being on this committee and having the dialogue and seeing the result of that is a powerful thing. And so I think

you guys have done a great job. And if you can enhance it, that can only be better.

MR. PEARCE: Great, great. I appreciate the feedback.

MEMBER HARTINGS: Just one follow-up on the CRA exam. Have you changed the last year or so the examiner's workbook for CRA in the sense of how the questions are answered? I get a little pushback from bankers I talk to about it's a little bit more prescriptive. "I've got to check the box here" versus write a description in of maybe what's happening in CRA in their area.

And certainly, as you know, community banks are all in very unique communities so they have their own unique -- has that handbook changed substantially over the last couple of years? Have you gotten any feedback on that at all?

MR. PEARCE: No, we haven't had any significant changes in our CRA sort of pre-exam planning process, or the handbook related to the Community Reinvestment Act. And I couldn't agree with you more that understanding the context of

where the institution's operating is really the critical element as it relates to CRA.

So, but let me go back and check to see if we've changed any of our questions. But I'm not aware of anything that would be a significant or meaningful.

MEMBER HARTINGS: And just to follow up with John, I mean, I can tell you our last CRA exam examiners did an excellent job educating us as well, you know. So, preparing us for that next one and to help us comply.

So, you know, and I give those -- you know, sometimes the folks on the ground, it takes a lot to get it up to, maybe to Washington, D.C. But they've done an excellent job and you need to know that as well.

MR. PEARCE: Great. Well, I appreciate the feedback. And it's really, you know, I think obviously there have been some changes in the regulatory environment in the last few years. And having our examiners being able to add value through the examination process has been

really a priority for us.

MEMBER BUSSE: Mark, I'd also add, you know, we're a growing institution. And we've added a lot of assets through acquisition and organic growth. What I can tell is that the process and the survey process and the pre-exam process have been very helpful to us.

But what it's resulted in is very consultative types of suggestions as we approach $3 billion range. So we're always looking to, you know, the examinations are more forward-looking than on "here are the things that you have to consider as you continue to grow. Here are the areas we want you to think harder about." So the list of things to do isn't necessarily shorter, but they're more focused. And that helps us grow successfully, so thank you for that.

MR. PEARCE: Great.

MEMBER BUSSE: It intertwines with the whole process.

MR. PEARCE: You know, obviously, for our examiners, having the opportunity to spend time

in advance in getting to know your institution really positions them to be able to provide that kind of collaboration in the process.

MEMBER TOLOMER: Put under the category of wish list, and I recognize there are fifty states, but what happened to us with our most recent CRA compliance is FDIC had one set of dates, New York State had another set dates. You were in almost simultaneously.

Is there a way to give us the same dates for the same review? And is there a way to not have two regulatory bodies looking at us at the same -- I mean, we have nothing to hide, it's not a question. It's just logistics that you end up with two regulators looking at essentially the same information, one that has a three-month difference in timeframe than the other. Just, somehow work together with the states. And maybe it's the states need to work with the FDIC. But to streamline the process to one set of dates, maybe one team dig in as deep as you want, and then, you know, so that would have been helpful to us.

MR. PEARCE: That's a good point. New York is one of the handful of states that does its own separate compliance and CRA examination. And so there are a handful of other states that we collaborate with, and I think finding ways to make sure we schedule that efficiently.

Some institutions want them at the same time, the state and the FDIC at the same time. Other institutions want them separately. And so trying to figure out what works best for the institution's --

MEMBER TOLOMER: Yeah, I don't think it's a problem at the same time as much as you have different dates. So the state would have to give one set of mostly the same documents but not all the documents. And so you have to be careful to make sure.

So at least if we were dealing with the same dates, it makes it that much easier that one package goes to both regulators, and you're onsite and you can look at and do what you need to do.

I will say that, you know, the FDIC came

in in quick order, did their job, gave us a report. So that was -- the process has already been completed with the FDIC.

MR. PEARCE: Okay. That's something that we'll take back and look into more.

MEMBER BEARD: Mark, could I follow up on that just a little bit? Just to give you an example, this last year, we had done an acquisition. We had a visitation last summer on compliance. And we got our report, I think it was in November of last year, at the time that you'd already scheduled the visitation or a full exam in January.

And so it kind of bunched everything up. So we had a visitation and we had a safety and soundness and we had a compliance, and then the Federal Reserve came right after that.

And so I don't know if there's coordination between the various agencies, but it seemed to me it was kind of an inefficient way to have all of them there within almost a six month period, and then to spread it out through the rest

of the year. Is there any way to coordinate that?

MR. PEARCE: Yeah, it's something that certainly we try to do, both on the consumer compliance side and the risk management side, on when those dates align. And then when you add in additional regulators, right, it can bunch up at certain times. But we sort of do the best we can at working through those schedules.

MEMBER MENON: Mark, I have a quick question. I agree with everything that people have said here about pre-exam plan. And we just had our safety and soundness exam in January. It went really well, we didn't have any problems.

But this thing took three weeks. Is that likely to go down in timeframe, or is it always going to be as long as that? I mean, that's the been the case before.

MR. PEARCE: So, the compliance exam?

MEMBER MENON: No, I'm talking about safety and soundness.

MR. PEARCE: Safety and soundness.

MS. EBERLEY: So, that is something

we're looking to work on. Right now, I can tell you I don't have stats for every kind of asset bucket, but the median community bank is about $175 million. And those exams, from start to finish, and we're not onsite that whole time, are about 30 days.

On average, we do about 33% of exams offsite. So, 33% of the time, the hours of the examination -- and start to mail doesn't mean there's hours every day. It's when we go into the bank and when the report is mailed. And there's about nine people for the average $175 million bank.

We're working through the FFIEC, we're starting a project to take a look at all of that. But internally at FDIC, we've been thinking about how can we reduce our onsite time.

And one of the things that we've been working on for about the last 18 months, we talk about in the EGRPRA report, is a pilot project with technology service providers to get a standardized download of imaged loan files for those banks that

image loan files, and more than half do at this point.

And so if we can tell you we're coming in for an exam, we get your alert download, we take a look at the alert data, we figure out what loans we want to look at. And then we say we'd like the imaged loan file download for these loans, you can call the technology service provider, click a switch, whatever. We get the files and we can do most of that work offsite, and then come in prepared to discuss, very much like on the compliance side.

And that's the biggest portion of hours for an exam. I'll tell you that the offsite work differs from region to region. So, in smaller banks, we're actually able to do more offsite. So our Kansas City region is doing about 43% of exams offsite right now. In the bigger ones, less so. So, New York, sorry, 24%. All the other regions are right around 38.

But that is something that we've talked about as one way to reduce burden. Because we hear you that you don't mind the exam, you mind having

all the people in your bank for two weeks or three weeks, and it's disruptive and there's nowhere to put them. And, you know, so, they're taking up your conference room, your boardroom, or wherever we have them. And so we think that's something that can be beneficial, that can be a win-win.

MEMBER HARTINGS: Doreen, if you have a technology provider put that together, the one thing I think's always important is to label it. I mean, we're an image shop, so we could send you that whole file.

But the difference between seeing the file in my shop and sending it over imaging is it's here but I can't tell, I can't flip the pages to know the financials are in the back, the number of files here, the insurance policy's there.

So if you think about labeling it, we'll stick it in each label, and that way you're going to see it. Because part of our --

MS. EBERLEY: That's exactly what the program is, to make a standardized formatting of the file.

MEMBER HARTINGS: That's great.

MS. EBERLEY: So you've got the loan documents, the collateral documents, the financials, you know, whatever other major categories. And we've been piloting. We've done a handful of exams so far using this, and we're working with two of the larger providers right now in the pilot. And it's worked pretty well. The examiners have liked it, the bankers have liked it. So that's something that we hope to bring home this year.

MEMBER HARTINGS: That sounds great.

MR. PEARCE: And this would be something we could utilize for the consumer compliance side as well.

MS. EBERLEY: Absolutely, yeah.

MS. RYAN: Any other comments on Doreen and Mark's presentation?

MEMBER BUSSE: Just one. Doreen, just following up on your comments concerning education. There is a program at University of Oregon, I think the director's in one of them

MS. EBERLEY: Okay.

MEMBER BUSSE: I can tell you that the success of the program at the University of Oregon, it's oversubscribed. They've have more students interested --

MS. EBERLEY: That's great. Thank you very much.

CHAIRMAN GRUENBERG: I wanted to ask you, do you all, as community bankers, offer internships to students? And is that a useful vehicle for you in terms of eventually attracting people to work for you?

MEMBER HOWARD: I'd just make the comment that we offer them, and they're extremely useful. It gives the student an opportunity to get in-depth in a particular subject area. And we use them in risk management, we use them in our finance area. But it also gives us, you know, as an institution, the opportunity to look at the student. And that's proven to be really, really valuable.

In some cases, the students say, "I

didn't realize this was what it was. You know, I'd like to do something different." But by far, the vast majority, we probably gave six or seven a year internships, the vast majority end up working for us at some point. So it's very valuable.

MEMBER HANRAHAN: I agree with Chandler's comments. We've had a fair bit of success of bringing interns in and having them stick and turn into great full-time employees. I think the nationwide directory is a very clever idea.

I will say, though, for a rural bank like ours, the interns that have the highest likelihood of sticking are the ones that have the most local roots.

And so part of the screen we have for interns are the ones that we think are going to tend to remain local and not flip to a sexier job working somewhere when the internship's up.

MS. RYAN: Okay, well, let's move on to Diane and Rich.

MR. ELLIS: Okay, thanks. As has been

our practice, Rich and I are here to talk about the latest in our community bank research agenda. So Rich has a paper he is going to discuss here in a minute.

But before I turn it over to him, I want to draw your attention to this booklet or pamphlet in your package. It's a summary of the Community Banking Conference that was held here at the FDIC last April. So hopefully you find it a very useful summary of those proceedings.

Also, for someone who desires a lot more detail on this, we actually have transcripts that are hanging online at our FDIC.gov website. So I just want to draw your attention to that.

Rich now is going to talk about a paper that we released yesterday which analyzes our Summary of Deposits data. Now, I think all of you are probably pretty familiar with these data, at least you, every year in the summertime, you send us a survey of the summary of your deposits, your offices and branches and so forth.

The FDIC's actually been collecting

these data since its beginnings, in 1934, when there were about 3,000 branches in this country. Now there are over 82,000, I think, something like that. And these data are actually pretty useful for us and outside analysts.

It's really the best or primary means for analysts to get a sense of market share, not only physical presence, but also market share among and within the banking industry.

So, given the fact that we just released this paper, we thought it would be useful to explain the results and show you how we benefit from these Summary of Deposits statements.

MR. BROWN: Thanks, Diane. Good morning, everyone. And as we've been discussing consolidation with this group for some time, as you know, the number of charters has declined by two-thirds since the mid-1980s. At the same time, the median size of a community bank, according to our definition, has more than quadrupled, from $40 million to $186 million.

So, while the definition of a community

bank remains consistent -- it's a bank that does lending, relies on core deposits, and has a relatively narrow, limited geographic area -- their size has increased over time.

And as Diane mentioned, we've become increasingly reliant in looking at the Summary of Deposits data to look at the physical presence of the branch offices. In 2015, we released a paper called Brick and Mortar Banking Remains Prevalent in an Increasingly Virtual World. And it showed the long-term increase that's happened over a long period of time.

It was interrupted by two events: the banking crises or the late 1980s and early 1990s, and the crisis in 2008. And we'll see the effects.

What we have with this new paper that was written by Angela Woodhead, Nate Hinton, and Derek Thieme, in the front row here, it's going to show that that decline in the number of offices continues, has continued, while deposits have been very abundant in this post-crisis environment.

So I want to give you a very brief

overview. And hopefully we'll get to some conversation about the trade-offs between a physical presence and virtual presence, and also the implications of this trend for deposit gathering and for your efforts to manage expenses.

So let's go to the -- there's a slide deck here, we have just a few slides. If you go to Number 2, it shows another annual decline, the seventh in a row, in the total number of banking offices operated by FDIC-insured institutions.

The historic high in the number of banking offices was 2009, where there were 99,450. The most recent year, the number of banking offices declined by 1.5% to 91,851. And that's been just about the annual percentage decline in offices for the industry over time since 2009.

Now, despite this decline in physical offices, the growth in total deposits, the red line in Chart 2, remains strong at 5.8% during the year. And that's just a bit lower than the five-year average increase of 6.4%.

So this explains the title of the paper,

which is Banks Attract More Deposits While Operating Fewer Offices.

Let's go to the next chart, if we can. One of the concepts that was explored in the 2015 brick and mortar paper was the density of banking offices per 10,000 persons.

The red line in Slide 3 tracks the total density of banking offices going back to 1994. And so through the late 1990s and early 2000s, total density remained fairly steady at about three offices per 10,000 persons.

Density rose somewhat in the years immediately preceding the crisis, peaking in 2008 at 3.22 per 10,000 persons. Since then it's fallen, density has fallen for eight consecutive years. By the middle of last year, it stood at 2.81 per 10,000 persons. And this is the lowest level of office density in at least 30 years, looking back.

So, as you can see, though, in the blue line on the Chart 3, the total amount of deposits per banking office has roughly doubled since 2004

to over 122 million by the middle of last year. So that's really been a trend to gather more deposits per office. It's a trend that has accelerated since 2010, rising at a rate of about 7.8% annually.

So again, this abundance, and with less brick and mortar institutions, including the non-community banks and the community banks, have been able to gather deposits.

If we go to Number 4, we're going to look a little bit more at density. Differences in the density of offices per 10,000 persons across county types is one of the breakdowns that was explored in the 2015 paper.

The authors here have extended it forward two years. And as we before, we note the consistent differences in density between rural counties, micropolitan counties with populations between 10,000 and 50,000, and then metropolitan counties.

As you can see, density is perpetually higher in rural offices. Why? It's more distance involved, so you have to have more offices to

provide the same service.

But, you know, the previous study noted the long-term stability in the density of banking offices in rural and micropolitan counties, and this little more pronounced decline in the density of metropolitan offices. But I think what we've seen is a little bit of fall-off in density in all three types of counties in the last couple of years. So this decline in density is getting a little more widespread, even though they're still more dense in the rural and micropolitan counties.

Let's go to Slide 5. The bottom line for the discussion, of course, is how these trends have affected community banks. Now, this is one look that the authors gave us, and that is the one-year deposit growth, mid-2015 to mid-2016, in offices located in metro areas, micropolitan areas, and rural areas. A couple of results stand out.

First, deposits grew faster overall in metropolitan areas. I don't think there's too much surprise there. Our previous research showed

that between 1980 and 2010, the total population grew in 88% of the metro countries, 70% of the micropolitan counties, but only half of the rural countries. In fact, that paper was about rural depopulation. It's a phenomenon in many rural areas.

And by 2011, metro counties accounted for 84% of U.S. population and 88% of U.S. economic output. But the chart also shows that deposits grew faster for community banks than for non-community banks in all three types of areas. And, again, it's a little bit of an unexpected result.

So the reason, though, that non-community banks, their overall deposit growth is a little bit faster than community banks: they do more business in metro areas, and community banks lean a little more toward the smaller, micropolitan, and rural areas. So, where you do business matters. But still, in each type of county, community banks are the generators of deposits.

Slide 6, and it's really a reconfiguration of Table 3 in the paper. And this is a very important thing that our authors did that's very important for this analysis, and that is merger adjustments.

If you compare two years in terms of deposits or offices and you just take the aggregates for the two years you're going to bias downward the calculations for a small size group or community banks as we define them.

Why is that? Well, certain community banks, they grow out of community banking status. Maybe they're acquired by a non-community bank. And that tends to skew, that makes community banks look like they're shrinking, it makes non-community banks look like they're growing.

So, what you have to do in merger adjustment is two things. One, you have to fix the definitions at the end of the period and the beginning of the period that you're analyzing.

And, two, you have to take the merger targets for the prior period and put them together

so you have essentially an apples to apples comparison. So I'll show you at the top, and this isn't in the paper, but if you look at the percent growth in total banking offices for community banks and non-community banks, looks pretty bad for community banks, -2.6% for banking offices versus 0.9%.

And then percent growth in total deposits, again, community banks growing less than half the pace of non-community banks. But our analysts did the merger adjustment. It's a simple concept. It does take a little bit of programming expertise, which they have, certainly.

So let's look at the bottom. Merger adjusted, what happened? Percent growth in total banking offices, positive for community banks. They added 67 offices during the 2015-2016, while non-community banks were a lot more aggressive about closing offices. The community banks added 67 offices, non-community banks shed 544 offices during this period.

And if we merger adjust growth in total

deposits, +5.8% for community banks, +6.1% for non-community banks. Not really a meaningful difference there. So if you see something in the paper that just looks at size classes and says changes or growth from period to period, make sure it's merger adjusted. It's critical to an unbiased analysis.

The bottom line on group seven, the total number of banking offices has declined for seven consecutive years. The density of banking offices has also slowly declined in the post-crisis era. Yet, total industry deposits continue to grow, supporting loan growth.

Our Quarterly Banking Profile has a community bank section, and for the last three years, total loan growth has been above eight percent. It's been a pretty healthy clip.

And as I mentioned, for community banks, they saw higher, they saw faster deposit growth in 2016 than non-community banks in the rural, micropolitan, and metropolitan counties. They saw nearly the same total deposit growth on

a merger adjusted basis, and they added offices on a merger adjusted basis.

What I'm hoping we can do with the time we have left is for you all to talk to us a little bit about your strategic viewpoints on physical presence versus virtual presence, and what implications it has for deposit gathering and expense control.

MEMBER SCULLY: Rich, I have a couple of questions, maybe a little bit arcane. But your merger adjustments, I can see how you would adjust for numbers of offices. How do you adjust for deposits? I mean, do you just exclude all the deposits from an acquired institution, or?

MR. BROWN: No, you just, you basically, if one institution has acquired three others during the period that you're looking at, you take the institution that's at the end point, you find that institution in the previous period, you find the three certs that it acquired, and you smack the deposits together.

MEMBER SCULLY: So you would actually

be capturing the net effect of one off versus new acquired growth in that.

MR. BROWN: It really just focuses the analysis on organic growth and gets rid of structural change as a source of growth, which can be misleading.

MEMBER SCULLY: So I have another question. When you look at some of these -- and one of the things that -- and my colleagues will probably kill me if it leads you to ask for more data -- but one of the things that we've always found frustrating is that when you're looking at NICs for an organization, you can find NICs at an aggregate level. How much is DDA, how much is money market non-maturity deposits, how much is CDs? But you can never find that information at a branch level.

MR. BROWN: Right.

MEMBER SCULLY: So, you know, when you look at some of the deposit growth, I mean, it leads to the question, you know, is it related to pricing strategies at community banks? Is it actually

related to acquisition of, you know, what we would call core deposits? And our definition of core deposits is actually much narrower than yours in that it's transaction deposits. But, I mean, is that something that piques your curiosity?

MR. BROWN: Oh, you bet it does.

(Laughter.)

MR. BROWN: But you know, I think, you know, the liability side is perhaps less detailed than the asset side anyway. And the Summary of Deposits doesn't push it any further, it actually comes back to total deposits. And so we'd love to understand more about it.

We have some various other sources, you know, you can look at some of the consulting or the vendors from outside who may have more information on publicly traded institutions, and data from failed banks, things of that sort. But we don't really have any comprehensive sources right now. They're pushing it as far as they can with the data that we have.

MEMBER HARTINGS: Rich, do you have an

idea of the breakdown of the growth in deposits by mix at all? DDA, MMDA?

MR. BROWN: That has not been part of this paper. But again, it's something that in the community bank section of the QBP, there are some breakdowns there. And really we could look into perhaps doing more of a focus on that. Our focus increasingly goes to the liability side. And I think that's a good suggestion.

MEMBER SCULLY: I mean, I think you have the data to do it at an aggregate institutional level. You don't have the data, which for some of us is very frustrating. when you're trying to judge the effectiveness of your competitors. But you probably do have the data at aggregate institution level.

MEMBER HARTINGS: And just a follow-up on Mary Anne's question about the merger-adjusted. Is that really looking at the surviving community banks, what they did? I mean, is that a way to kind of rephrase it to say this is what the surviving community banks have done as far as growth in

deposits or growth in offices, rather than aggregate? Because the aggregate is, "I still lost numbers of institutions or number of branches." I mean, is that another way to paraphrase that?

MR. BROWN: It separates organic growth from growth that's generated by the change in categories from community to non-community and for growth that's induced by mergers. So you basically impose the merger before the fact so you can get to organic growth.

MS. ELLIS: Jack, when you asked, was there a particular question you think we ought to be exploring? When you asked about the, you know, the composition, the DDA versus time?

MEMBER HARTINGS: Probably a liquidity question, as much as anything. You know, if all that growth is in DDA, MMDA, and not in CDs, or you know, it's kind of -- it'd be interesting to know where we've seen that growth.

Each one of our institutions have kind seen that movement a little bit, and we'd like to

see that nationwide. Are we normal, are we abnormal? So I think that would be helpful.

MEMBER SCULLY: I actually think it would tell you a lot, because the mix is going to impact the cost of funds and therefore going to impact the net interest margin and the ultimate profitability.

Also, if there was a way to track the DDA portion, you know, it deals with this whole fear that some of us have that the payment system's, you know, moving away from us because of, you know, methods of accessing the payment system that the larger banks sometimes have an advantage of.

MR. ELLIS: Okay, yeah, that's interesting.

(Simultaneous speaking.)

MEMBER SCULLY: Well, it's one of the end results. But I also think the mix would tell you how that deposit growth is occurring, at what expense. And, again, the hold that the community banks might still have on the transaction deposits and the interface with the payment system.

MEMBER BUSSE: A lot of our changes, you know, we're still at 14 offices and two loan-production offices. That hasn't changed, and we've added a billion dollars in assets probably in the last few years with mergers and acquisitions.

But I can tell you that we still have a membership capacity, because the total number of remote deposit capture clients is increasing every year. So we're probably close to 40% of our deposits, you know, now come through remote deposit capture.

And then mobile banking is continuing to create efficiencies as well, so our efficiency ratio is, you know, hovering around the mid-50s. But I can tell you that there's still capacity at our offices because the traffic is changing and the nature of the deposit activity is changing.

So we could still grow another maybe ten or twenty percent without having too much implications for office size and locations because our business banking office is located centrally

to where we service our clients. But that’s changing.

MR. BROWN: Would you say density's declined further over time?

MEMBER BUSSE: Yes. I think we've become more efficient, much more efficient, with the same number of offices.

MEMBER SCULLY: Branches just aren't necessary for what they used to be necessary for. I mean, they're sales and service locations as opposed to transaction hubs.

MR. BROWN: I was going to ask, do they play important roles in lending size, small business lending, that sort of thing?

MEMBER BUSSE: Yes, definitely. That's where the capacity will be filled up. By leveraging that up, you're placing more of your lenders in those and your support folks, you know, and your administrative office may expand somewhat.

MEMBER TOLOMER: I think what you're going to see is that there is a need for a community

bank to add branches, but I think the industry overall will continue to see decline because there's -- we would have died, not died, but we would have had a much more difficult time growing without remote deposit capture and mobile banking. I think that is clearly the trend. The usage is up.

However, if you could ever dimension this, this is the real secret sauce, and that is, what is the impact of having of a branch? Because there is an impact, a positive impact, for people to be driving in their neighborhood, see your branch, and I can tell you on numerous occasions, I've had people say, "Now I can bank with your bank because you have a branch that's five or ten miles from my home."

There's a power, and that's the service and it's the convenience, and it's maybe the insurance policy if something goes wrong I can go see them in person.

MEMBER SCULLY: It's branding. And it's frustrating when you're trying to focus on

efficiency ratios. But for community banks, and I think that's why you see some of this growth, the branches are more important from a branding or credibility. I mean, on bad days, we call them expensive billboards, but --

(Laughter.)

MEMBER HOWARD: It's an interesting dilemma, we have an online account opening fund, so you do it electronically within certain limits. Our fastest, and we compare it to the average new account business an average branch does, our online account opening fund channel is doing two and a half times what a typical branch does with new account business.

So it's kind of an interesting dilemma, that you know you have a channel that's perceived by the public to be a very attractive one for doing business with your institution. But the billboard effect is very, very real.

You know, we're looking at strategies of creating locations that, you know, can take deposits, but they're more there for the billboard

effect than they are for acquiring deposits, because consumers bank differently now.

MS. ELLIS: So it seems like square footage can come down quite a bit if it's just serving as --

(Simultaneous speaking.)

MEMBER SCULLY: -- it's always a transactional vehicle, not a sales or service vehicle. So, you know, ten years ago you wouldn't have hesitated to open a branch without a drive-through if you were in suburban location. Not so much anymore.

MEMBER BAER PAINE: I do think that the challenges when you're in communities of 400, 1,000 people, you still have to have that full-service facility. But for us looking into going into smaller communities, and we're a small community, do we look at an LPO versus a full branch? And like you said, square footage, do you bring that down?

And it does come down to efficiency. Our electronic traffic, even in a small town, our electronic traffic is 47% of our total traffic,

whether you're talking about debit cards or ACH or online banking and mobile deposits. We still have to offer all of those services.

Again, our community is 14,000 people. We have ten financial institutions in our town. We're definitely not unbanked.

(Laughter.)

MEMBER BAER PAINE: So we do have a challenge, but there are all of these bedroom communities that are 40 minutes away and an hour away, and they may have one ATM in town or a very small location. Then what do you offer them? Do you offer them an LPO with a remote deposit machine, or how do you deal with that?

MEMBER HARTINGS: And I think, you know, you have to be careful. Just counting transactions is just like counting deposits. We have done, I think, an excellent job moving transactional transactions out of the institution and making it more efficient. But that relationship, when I want to borrow some money, when I want to open up an account, when I have a

problem with my credit or debit card, that relationship transaction that they still want, that's the importance of that branch.

And so you got to be a little careful when you just count numbers. Because, yes, we moved that check-cashing number out of institution. We just say it's because everybody's done direct deposit and we can pay bills online and everything else like that.

But those important transactions that have always been important to our institution, it's still coming in to our institution. And so I don't how we count the difference, but I think we have to kind of keep that in mind.

MS. EBERLEY: Mary Anne, can I ask a question going back to where you started, and if the Summary of Deposits data were broken down by mix, is that something that would be easy to do?

MEMBER SCULLY: Everybody knows what their mix is inside their own branches. I guess I'm being recorded, so --

(Laughter.)

MEMBER SCULLY: No, everybody has them. It would be more fields of data, you know. And certainly for the megabanks that have thousands of branches. But, I mean, I would venture to say everybody around this table knows what their mix is in each of their branches. So you have the data.

MS. RYAN: Anything else? If not, thank you, Doreen, Mark, Diane, and Rich.

And moving on to our next session, Doreen's going to stay with us and she's going to talk to you about the Handbook for Organizers of De Novo Institutions that she mentioned a few minutes ago.

MS. EBERLEY: Alright. So you each got a copy of the handbook in your packets. I would just caution that it is still draft. We put the handbook out for comment in December, and we have not finalized it yet. But this was part of our follow-on activities from the April 2016 Community Banking Conference.

The Chairman committed at the conference, and we followed through, that we would

put out a publication giving banks guidance on our organizational groups, guidance on how to go about applying for deposit insurance.

So the publication is designed to do just that: to help organizers become familiar with the deposit insurance application process by providing hopefully a plain language overview of the various requirements and considerations.

We divided the handbook into three primary parts, the first addressing pre-filing activities, the second the actual application process, and the third pre-opening activities. And I'll go through just an overview of some of the maybe most talked about topics that came up in each of our de novo events on each of these areas.

For the pre-filing meeting, we started the de novo events with a regulator panel that really stressed the importance of pre-filing meetings. You're not restricted to one. If you want to call it something else, you can have an exploratory meeting before a pre-filing meeting. You can have multiple exploratory meetings.

But the point being that communication on the front end is really good. It helps us highlight any red flags that we see in a proposal so that it can go back and be reworked before you get too far down the road and too embedded in a concept and have to make a lot of changes. And it gives us an opportunity, too, to explain the process, just to make sure that the group understands how the process is going to work and create some transparency around that.

For FDIC, the pre-filing meeting also gives us an opportunity to establish a point of contact for an organizing group. So we use a case manager concept in our regional offices, so each institution has a case manager that handles their reports or examination reviews, their regular correspondence, any applications that are filed.

And so this relationship starts at the pre-filing meeting. The case manager that comes to the pre-filing meeting will be the one that will be assigned to that bank long-term so they get to know the bank from the get-go and start that

communication and relationship.

We've provided a timeline in the document of what to expect in terms of communication along the way, so where should you expect routine communication. Our process right now in the timeline is based on a four to six month time horizon. What happens during that time horizon is right up-front. Within three days of filing an application, we ask our case managers to acknowledge receipt, so to make sure that the applicant knows we got it and we're taking a look at it.

For about the next 30 to 45 days, the case manager will go through that application in detail and make sure that we have everything that we need for processing. So that's kind of a completeness review is what we would call that.

And typically speaking, if an institution has addressed and answered the questions in the interagency application form, and we do use an interagency form, it's joint with the chartering entities, so all of the states, plus the

OCC. One application gets you both your charter application and your deposit insurance application.

If those questions are answered and they don't raise any significant follow-on questions -- so, sometimes the answer in an application does raise some questions. But if not, then we consider it substantially complete as of the date it was accepted, and from there we begin the processing.

But that review takes some time. Deposit insurance applications are generally, you know, some inches thick. And just as an institution takes time and care to go through their business plan, we want our case managers to do the same, make sure that it's making sense and that we have what we need.

So once we accept the application as substantially complete, we move forward to a field investigation. And this talks about the field investigation process and what to expect there. And that involves a field examiner coming out and

meeting with the organizing group, talking through the process, interviewing each director individually, interviewing them as a group, same with the executive officers, and trying to gauge the understanding and commitment of the group to the business plan. Does everybody understand the business plan? Are they conversant in it? You know, want to make sure that everybody's buying in.

And this was something that was really brought out in our discussion with our panelists: that you have to own it. The board of directors has to own the business plan. You'll get pressures from shareholders, you may have pressures among your board that the bank down the street's doing something different, we could make a quick buck, we could increase our returns. But really sticking to your knitting and what you built the bank to do, how important that was. And so we brought that out in the document.

We talked about the amount of capital that's needed, and that's based on the business plan. So whatever that business plan is that the

board believes makes sense in the marketplace that's where the bank will be established, the amount of capital's going to be dependent on that.

So we don't have a minimum number other than the two million that's in our 1998 statement of policy. We typically think it's going to be more than that. We're not going to have too many banks proposing to start up with that amount of capital.

And we had a lot of discussions about the importance of management, and we brought that out in the handbook as well. Some of the comments that we received during the de novo events were the importance of having an initial management team that had a broad range of experience and strengths, because you're going to be wearing lots of hats in those early days. And so you're going to need people that can do multiple things and that can grow with the institution, and just the importance of doing that.

We talked about the importance of the governance structure and the infrastructure around

that. So, policies, board policies, internal controls audit, preparing for all of that. And that is part of the startup activities.

And we talked about information technology. One of the things -- so, I did say this was draft. We put it out for comment, public comment, on December 22nd. And we asked several questions in addition to just requesting comments on the document as a whole. And, you know, we sought to make sure that we were being clear and transparent and that the requirements were understandable, the procedures and processes for establishing institution were clear, and that we had adequately addressed the three things we were trying to address, pre-filing, the process, and pre-opening activities.

And we got some great comments back, really stressing an important issue, which is the importance of the information technology, your TSP, your technology service provider, contract, or your contract with your core processor.

We're going to add a bigger section on

that and try to highlight, really, the comments that we got from the bankers, the practical advice from bankers about thinking about what do you want your core processor -- you want to buy a core processor contract, negotiate a contract that's for the bank you're planning to be. You know, don't think short-term. Think out where you're trying to be, because everybody talked about the difficulty of conversions, not wanting to go through that, and making sure on the front end that you were building for the future.

Some bankers talked to us about -- actually, all talked about the need to have expertise in going through the contracting process. And that if you didn't have that internally on your team, several had used contractors for that process. So we'll walk through some of these issues and add another section.

The remainder of the comments were not substantive in terms of changing the document, so the content won't change. But we will add that

section before we finalize it, and we would anticipate having a final document out by the end of April.

Let's see, the last point I would make on the information technology as well, I think we have a good opportunity, our inspector general has recently looked at contracts between banks and technology service providers relative to the content or the guidance in the FFIEC, the Federal Financial Institutions Examination Council, handbook, Business Continuity Planning and Information Security.

And so I think we've got a good opportunity as well to kind of remind banks to take a look at that as they're negotiating their contracts right up front. You know, use the FFIEC guidance as part of your negotiations. You know, this is what the regulators are looking for as you go through the process.

So that's really where we are with the handbook. Happy to answer any questions or talk about it further.

MEMBER BOEKA: I have a question. Overall, did you receive comments from associations, bankers individually, or mainly the organizers?

MS. EBERLEY: No, we sought comments broadly. We put out a press release with the document and sought comments from anybody who read it.

MEMBER BOEKA: And bankers wrote back?

MS. EBERLEY: Yes.

MEMBER TOLOMER: As part of the process, you know, I missed the first three or four months of our de novo. Do you actually interview, does the FDIC interview board members?

MS. EBERLEY: We do, yes. Individually and as a group. So that's part of the field investigation.

MEMBER HANRAHAN: Doreen, I compliment you and your staff on this. Not only does it demonstrate the corporation's sincerity about having an open door for de novos, but I wish I'd had such a resource ten years ago when we were doing

what we did.

And thank you for adding more content on core processors. As I reflect on my experience ten years ago, that's the thing that I, in hindsight, was least prepared to deal with. So I think amplifying that here will be very valuable to others.

MEMBER HARTINGS: Doreen, give us an update on just numbers of de novo applications out today.

MS. EBERLEY: Certainly. We have six that are in process right now. Let's see, we have approved five since the start of, you know, the start of de novo activity post-crisis. So, since 2011, I believe it is, approved five.

Four of those five have opened. One had determined not to open. And we have six active applications in process, most of which were received in the latter half of last year.

MEMBER HARTINGS: Is there a regional bend to that, I mean, were most of them out east, west?

MS. EBERLEY: Yeah, coastal, I would say, would be -- so, we've got two in the San Francisco region, two in Dallas region, and two in the Atlanta region. Lots of talk of pre-filing -- or actually there have been lots of pre-filing meetings. And then there's also been a lot of talk about pre-filing meetings. So, groups calling, wanting to set up exploratory meetings and come in and have a chat. You know, groups that are interested. So that activity has definitely picked up, and I get reports from the regional directors on that. And that's increasing quite a bit.

MEMBER BUSSE: I'd echo David's comments about thanking you for this book. There's a great deal of interest in this. You're going to see probably a lot more applications as a result. And this a great product, thank you.

MEMBER SCULLY: And I think that a handbook provides you with a clear argument that you're being very transparent about the process, so it's not just saying we want more. It's

demonstrating how to ensure that there are more. I would echo as well, I wish had something like this 12 years ago.

MEMBER MENON: Do you have an idea as to how much the average capital of the banks are proposing, the six banks you're talking about?

MS. EBERLEY: The six that are in process right now, I think the highest is 30 million. I can't tell you what the lowest is. Of the ones we have approved, the lowest was, I want to say, 16 million, the highest 25 million.

And so it just depended on the business plan and where the bank was located and what they were trying to do.

MEMBER MENON: They may not grow very fast. I don't think you can do very much with less than 20 million anymore.

MS. EBERLEY: You know, I think it depends on, again, where the institution's located and what it's going to do. I think it's fair to say that the entry costs are higher now. And, you know, just the world around us has changed. We've

talked about the different delivery channels that are going to make your technology package more expensive that it was before. You know, there was no mobile banking pre-crisis. There weren't smart phone pre-crisis. So that's just a while new challenge. Cyber-security's another challenge that institutions face today that wasn't as prevalent before. So there are differences.

As you know, though, there are also some positives in terms of the way you compete and not needing quite so many branch locations and not as big of branch locations. You know, being able to gain efficiencies quicker using technology. So, some pluses and some minuses.

MEMBER BEARD: Do you know what type of capital is coming in? Is it investor capital, professional investor capital?

MS. EBERLEY: No, it's largely been community-based, widely-held capital. Yeah.

MS. RYAN: Anything else for Doreen on this topic? If not, thanks. We're going to take a break right now 'til about 10:30. Thanks,

Doreen.

(Whereupon, the above-entitled matter went off the record at 10:09 a.m. and resumed at 10:29 a.m.)

MS. RYAN: Okay, welcome back, everyone. So, next we're going to have a session to provide the committee with an overview of the FFIEC's Report to Congress on the Economic Growth and Recovery Paperwork Reduction Act, EGRPRA. And that report was just issued last week, and it summarizes all of the agency's efforts to review our regulations, and occurs every ten years.

Anyway, to tell you about the EGRPRA process we've got with us here today Roberta McInerney, Deputy General Counsel in our legal division, Ruth Amberg, Assistant General Counsel also in the Legal Division, George French, Deputy Director in our Division of Risk Management Supervision, and Rae-Ann Miller, Associate Director in the Division of Risk Management Supervision.

And so I'll pass it over to Roberta, you

can take it first. Okay.

MS. MCINERNEY: Thank you, Barbara. Good morning everyone, great to see you here.

So, as Barbara mentioned, the banking agency submitted our EGRPRA Report to Congress last Tuesday, March 21st. We expect the Federal Register Notice to be published shortly. And the report lays out how our three-year EGRPRA review was conducted and what we've done to date to address regulatory burden, and we outlined further measures that we will take to address issues that are identified through the EGRPRA process. We provided the highlights section of the report for your package. And as I think a lot of you know who have been on this committee, we have some new members, we conducted the review as part of the Economic Growth and Regulatory Paperwork Reduction Act of 1996, which requires the federal banking agencies, that's OCC, Federal Reserve and the FDIC, along with the Federal Financial Institutions Examination Council or FFIEC, to conduct a review of our regulations at least every ten years with

a mandate to identify outdated or unnecessary regulations.

Consistent with EGRPRA the agencies regrouped our regulations into 12 regulatory categories and sought comment from bankers and other stakeholders through four Federal Register Notices, each addressing three broad categories of rules and each providing a 90-day comment period. In addition, the agencies held six public outreach meetings across the country to provide an opportunity for bankers, consumer and community groups and other interested persons to present their views directly to agency senior management and staff, senior staff, on any of the regulations subject to EGRPRA review. In effect, we opened it up more broadly to, we opened it up to Dodd-Frank regulations and we listened to comments on any regulation that folks wanted to comment on.

I wanted to note that a number of you were in fact panelists on those outreach sessions and we thank you, again, for your participation. It was very helpful.

So we held outreach sessions in Los Angeles on December 2nd of 2014, we started three years ago, we held one in Dallas on February 4th, 2015, one in Boston on May 4th, 2015, Kansas City on August 4th, 2015. There we focused on world banking issues specifically. Chicago on October 19th, 2015. And finally, Washington D.C. on December 2nd, 2015.

And I just want to emphasize, I've said this before but it really is important, that we really took the process seriously, our principals from each agency attended each of the outreach meetings, including our chairman, Marty Gruenberg, and I know Vice Chairman Hoenig attended some as well and heard all the comments from each of you, from everybody who spoke. And of note to you here today, the agencies we focused specifically on the effect of regulations on smaller institutions, on community banks and smaller state associations. Altogether, we received more than 230 comment letters from financial institutions, trade associations, some from consumer and community

groups and we also received numerous comments through the outreach sessions.

So, I just was giving the background, the legal background in what we did, and now I'll turn it over to Rae-Ann Miller to start talking about the specifics of the report and some of the highlights.

MS. MILLER: Thanks a lot, Roberta.

So the report describes several joint actions that the agencies have taken or plan to take, and George and I are going to talk about these in some detail, but there's four main areas; one is simplifying the regulatory capital rules for community banks and savings associations. Then there's streamlining call reports, there's an appraisal area where we talk about increasing the appraisal threshold for commercial real estate loans, and then we've got several other appraisal related actions. And then expanding the number of institutions that would be eligible for less frequent examinations for safety and soundness and BSA reviews as well.

And then the report you have the highlight section, but the report also goes into some detail about individual actions each agency has taken to update its own rules and eliminate unnecessary requirements and to conduct some streamlining. I'm going to go over the FDIC section of the report with you when we're done talking about the inter-agency efforts and highlight some of the more important areas. But just in general, one thing we do note in the report that even though the formal review is over, it's kind of hard to believe it was three years in the making, in the report we indicate that we're going to continue efforts to tailor regulations to the size and risks posed by financial institutions. Of course, we balance that with the safety and soundness concerns as well.

So, I'm going to turn it over to George a little bit to talk regulatory capital.

MR. FRENCH: Okay. Well, thanks Rae-Ann. Good morning. So the report basically indicates that the banking agencies are developing

a proposal to simplify our generally applicable capital framework for risk-based capital. So, the report indicates the first area we would focus on would be replacing the current treatment of high volatility commercial real estate with a more straightforward treatment. Let me say there that throughout this process the agencies, and we have received many comments on the HVCRE through the EGRPRA outreach sessions.

(Laughter.)

Sort of on a separate project we had a Call Report simplification effort where we visited a number of banks and tried to determine which areas of the Call Report required the most manual intervention, and it was significant that the HVCRE was high up on that list of areas that required manual intervention. And also, I have to say through the exam process we continued to receive sort of interpretive questions. There's a certain amount of interpretation and softness in the rule that is, it's just there, and so we really would like to deal with the HVCRE issue, it's a high

priority, and we intend to do that.

The report also indicates we will be focusing on the current regulatory capital treatment for mortgage servicing assets and so-called timing difference deferred tax assets, and also holdings of regulatory capital instruments issued by financial institutions. So as you know, there's a deduction treatment in the Basel III rule, 10% of capital for each of those items, and then a 15% aggregate. So that creates a certain amount of management complexity in dealing with those issues. It's been the subject of many comments, so we intend to come up with a proposal to try to reduce the complexity there.

And then finally, we mentioned the current limits on the NARDI interest and regulatory capital. I don't know if any of you have actually had the pleasure of opening up that section of the rules, but those are extremely detailed, lengthy and somewhat complex I have to say, so we would like to find an alternative to that. So, the news is we've indicated that we're going to do this and we

plan to do it.

So with that, I will turn it back to Rae-Ann.

MS. MILLER: Thanks, George. So, the next main area is call reports and the EGRPRA report describes our efforts here. We certainly reported to this community, I know a number of you are new, but several times on our efforts to study new issues related mostly to the Call Report preparation process and burdens associated there, and to streamline the call report. We really, it was about a two-year process that we've been looking at this issue. We've met with trade associations, we met with bankers to get some feedback, these were big meetings. As George mentioned, we actually also had a focus group and did some targeted on-site reviews with bankers where we sat with bankers and chatted and saw first-hand what kind of issues that they were encountering. And George mentioned, the capital schedule was an area that was commented upon, as was the loan schedule in some other areas.

But we also beefed up our process to justify keeping Call Report items or adding new ones. And as we were going through this, we didn't wait, we wanted to do things on a flow basis, so in July and August both we issued certain burden-reducing changes in two different releases, and then in December 2016 we finalized, as you know, the new streamlined FFIEC 051 Call Report, and that's for institutions with domestic offices only and assets of less than a billion dollars. It was on December 30th, actually, so we did make it.

The FFIEC 051 was created from the O41, and what we did was we removed certain existing schedules, we eliminated certain other data items and reduced the reporting frequency of a number of items. And in particular, one of the items we reduced the reporting frequency of was the entire schedule for small loans, the loans to small businesses and agricultural operations. And that was one we got feedback from that was a burdensome issue, and we also got comments on that in the publication process.

So, the new Call Report will take effect on March 31st. It reduces the length of the O41 from 85 pages to 61 pages, it removes approximately 40% of the data items that are in O41, and we've also prepared a shorter instruction booklet as well. We noted that in the report that we expect further Call Report streamlining in the future, and then to George's point, any simplification in the capital rules is going to make preparation of that schedule far less burdensome. We also have additional burden-reducing changes to certain line items coming soon, and that's from our beefed up review that we did.

Also, I wanted to point out that when we adopted the 051 we indicated in there an openness to expanding access to beyond just those institutions under $1 billion. Another thing I wanted to point out is, I don't know how closely you read the Federal Register Notice on it, not everybody does -- I do, it's weird -- but there's an appendix to that notice that's really, really helpful, I think, and what it lists is the reasons

why we kept the items. And so the reasons range from because they're required by legislation or regulations, but there's also reasons -- we base our decisions whether to extend the examination cycle from 12 months to 18 months, a lot of it is on off-site surveillance systems, so that could be a part of the reason why we retain items as well.

In the appraisal area --

MEMBER HOWARD: So, great. I just wanted to interrupt if I could. I think this is directed to George; a year ago we were talking about the accounting rule that will take effect regarding institutions and how investment portfolios and the changes, having to go through these income statement versus the balance sheet. And there was movement to, or there was discussion, I should say, to how a line item on the Call Report that would help a reader understand what potential volatility, what it would come from.

MR. FRENCH: Yes, correct, our intention is to work with the other agencies to address that. We think that has merit.

Unfortunately, I don't have the answers to exactly where the process is right now, but we'll probably find out soon enough, hopefully, maybe even today. Yes, our intention we think that has merit.

MEMBER HOWARD: Okay, thank you.

MS. MILLER: Okay. So, moving onto the appraisal area; we also indicated in the report that we are developing a proposal to increase the threshold for requiring an appraisal on commercial real estate loans from 250 to 400. We did get a lot of comments on that, on both sides. We did have a lot of appraisers and appraisal-related industry comments as well as banker comments that were sort of split down the middle, as you can imagine.

(Laughter.)

(Simultaneous speaking.)

MS. MILLER: Publicly available comments. So, we also talked in the report about issuing a statement to our regulated entities, and this is something that we're planning to do to inform them of the availability of the Appraisal Subcommittee of the FFIEC has an existing authority

with the approval of the FFIEC to grant temporary waivers of appraisal requirements in rural areas. And so we want to remind the industry of that ability. Also, individual states have the ability to grant temporary practice permits which may help address temporary appraiser's shortages, and as those go across state lines.

To clarify our expectations regarding evaluations; we got a lot of comments when we were in the Kansas City outreach session in particular about confusion about when evaluations were appropriate. So in March of 2016 we issued a reminder, we call it kind of an advisory on when evaluations can be performed in lieu of appraisals. In the exam frequency area, as the process unfolded we did get a lot of comments; I think the first set of comments -- I remember Adriana being on that very first panel -- that was interesting planning, talking about --

MS. MILLER: Yes, it was. Talking about extending examination cycles, so we were supportive of that. And as you know, Congress

subsequently enacted the FAST Act, Fixing America's Surface Transportation Act. And among other things, it gave us actually discretion to raise the asset threshold for certain IDI's that qualify for an 18-month exam cycle, and that went from less than $500 million to less than $1 billion. So shortly, thereafter, in January, in fact we exercised that discretion, we issued a joint interim final rule to raise that asset threshold. So as a result of that, approximately, a little bit over 600 more institutions would potentially qualify for the extended cycle, and that would increase the number of potentially qualifying institutions to approximately 83% of all IDI's right now.

MEMBER HOWARD: So there's only few institutions between a billion and say $5 billion margin?

(Laughter.)

MS. MILLER: So, it's statutory as you know. But in general, the agencies reviewed BSA compliance at the same time, the safety and

soundness, so the institutions that benefitted between those asset sizes are now eligible potentially for less frequent BSA reviews as well. And so in the report we had some other more minor areas that we are going to be taking some inter-agency action on, and one of them is clarifying guidance in the flood insurance area, and then we plan on issuing a proposal to increase the major assets, interlock threshold, and that's in the regulations that implemented Depository Institution Management Interlocks Act, it's another threshold that's been there for a long time. And we plan on enhancing some guidance that we have outstanding on Regulation O.

So, I want to just turn for a second to some FDIC initiatives, we have significant detail on each of the agency's efforts in the report, and we talked to you guys about these relatively frequently, but I just wanted to touch on a few. And Doreen talked a little bit this morning about the work we've done around de novo institutions,

it was definitely a frequent topic of comment, both in the written comment and in our outreach sessions for EGRPRA outreaches, as well as other outreach. So, we rescinded FIL 50-2009, and that was called Enhanced Supervisory Procedures for Newly Insured FDIC Supervised Institutions. So, by rescinding that it reduces from seven to three years, the period of enhanced supervisory monitoring of newly insured institutions. We also very early on -- I think it was in 2015, November 2015 -- we issued guidance in the form of question and answers on issues related to deposit insurance applications. Doreen was talking about the series of outreach meetings that we've conducted, and we've also got subject matter experts in each region who are, you can provide applicants with a dedicated source and points of contact for deposit insurance applications. Then, of course, Doreen, in the last session mentioned our public handbook. In the area of just in general, we're trying to reduce burden in applications, examinations and supervisory processes. We have a number of things

we point out in the report, and I just want to point out a few to you; again, in November of 2015 based on some early comments, we eliminated requirements for institutions to file applications under Part 362 of our rules and regs to conduct activities permissible for national banks through certain bank subsidiaries that were organized as LLC's.

And when we put these filing procedures in place it was a new structure for us, but we estimate that over the ten years before we changed that requirement, probably the vast majority of the 2,000 applications we processed involved LLC's, so the changes really will have resulted in a significant reduction in filing. We talked a little bit about the pre-exam planning process and we do highlight that in the report that for both types of exams we really think focuses us and allows us to do some work off-site as well as focusing your requests list needs.

We talked a little bit about FDICconnect and paperless types of exchanges that we engage in there. In 2016, and I remember some

comments of this coming in in the Boston meeting, we established a process to allow for the audit reports that are required under Part 353 to be similar to the FDICconnect. And then Doreen talked a little bit about our pilot process for reviewing loans off-site and getting those standardized image loan files. So the point there is to sort of reduce examiner base time at the bank while maintaining efficiencies and effectiveness of loan review.

We talk about, it's not something we often talk about, but we actually received OTS rules and regulations when that agency moved on, and we have rescinded so far 16 rules and incorporated them into our rules for institutions that were transferred to us. We also have a proposal out right now to rescind another, and we have 14 more in process of review. And we talked a little bit in our report about our Community Banking Initiative, and it's been a multi-year process. We talk about the Advisory Committee in the report, our Director's Resource Center, the

website and our technical assistance videos. We have like 25 out there now. We recently redid some banker guidance on deposit insurance coverage and we've done some outreach sessions there. We focus on our research agenda, Rich just was here in a previous session and they did that community banking study in 2012 which was really a landmark piece, but some people forget that we follow with other research that's appropriate for community banks and we've done things on consolidation, on minority-owned institutions, branching trends as an extension today of that, economies of scale, earnings performance, closely held institutions, and then rural depopulation, which is a huge issue.

We talk about the community bank quarterly banking profile and the detailed picture that presents, and hopefully that's helpful to you and other community bankers. And then our community bank resource kit which is a nice package kit with things like a pocket guide and an article that would be appropriate to you. We did one on

corporate governance that's in there, corporate governance for community banks, it's got our Cyber Challenge pamphlets in there. And then in the area of capital, apart from what George was talking about, we also issued a FIL in 2014 regarding S corps and clarified the way we would treat certain requests from institutions to pay dividends. So we basically told banks that unless there were significant safety and soundness issues, we would generally approve those requests for well-rated banks. We conducted quite a bit of outreach and technical assistance specifically for community banks and we have a community bank guide for capital rules. We have an informational video, we conducted face-to-face meetings and also did informational sessions in each of our six regions on the capital rules in particular.

And then we talk a little bit about communication efforts and we've really tried very hard to improve those, and we re-issued an updated guidance this year called "Reminder on FDIC Examination Findings," and that re-emphasizes the

importance about open communication regarding supervisory findings. We also added an additional informal review process at the division director level in that FIL for banker concerns that might not be eligible for another review process.

And then we tried to improve transparency in developing guidance and supervisory recommendations, so our board issued two statements which is basically for us as staff to guide us in developing supervisory guidance and recommendations and communicating those in written communications to individual institutions. And then in terms of sort of to close out this session, and we kind of highlight in the report things that we're thinking about in the future, we talked a little bit about this, but sort of modernizing our processes for actually conducting the examination. We talk about that in the report. We say we recognize that burden is not just from regulations, that's what this EGRPRA is about is studying regulations, but it also comes from processes and procedures of the on-site examination, the

communication processes that we're constantly engaging in, the overall oversight of the institution.

So we talk in the report about several steps that we and the other agencies intend to take to look for further opportunities to minimize burden to bank management, principally by rethinking our traditional processes by making better use of technology. And there's several areas to this process; and first we're going to explore potential ways to reduce on-site examination hours, likely by making the use of technology to do more. And that pilot that we're talking about is one way, and I'm sure there are other ways, of course, making sure that we still have an effective supervisory process, that's key. We're also going to look at the format of the report of examination to make sure that it's still a value-added tool for all stakeholders.

We last revisited this report format probably as an agency group in the early 90's, so

we've kind of all moved in different directions on the inter-agency report, but it's probably a good time to take stock. Does it have all the required information, is there a way to make it more user-friendly? It's certainly the exam reports haven't changed since I've been -- the way we present them hasn't changed since I've been an examiner, so perhaps there's better ways to do that. We're also going to take a look at our own guidance documents, this was covering, EGRPRA was covering regulations, but we have a number of guidance documents, and we're going to focus particularly right now on the inter-agency ones to start. Are there areas where we could streamline? And talking with my colleagues, it seems the best way to do this is to sort of look at the ones where there are multiple issuances on the same topic and is there something we can do to bring those together. A couple that come to mind are the liquidity in audits that have had numerous issuances. And then are there particularly old ones out there that we haven't revisited in a while.

And then the final piece of it is sort of looking at our supervisory tools and which ones shouldn't we review. The one that comes to our mind, there could be others, is the Uniform Bank Performance Report, the UBPR. I don't know if you use that in your work? I know I like to read them, I might be the only person because they are very, very old-fashioned. They're very old-fashioned in appearance. We could probably enhance graphics making them more user-friendly, but perhaps I think more importantly is a consideration whether we're still hitting the right information, especially on that first page and whether we want to have different ratios to highlight.

So that's just sort of the report sort of announces that. Certainly I would imagine that this group is probably interested in that process and will be keeping you posted on that going forward.

So that's it with that, we'll certainly take any questions you might have.

MEMBER SCULLY: You mentioned, much

appreciated the acknowledgment you will work. Any new estimates on that?

MR. FRENCH: No, as soon as we can. I don't have a time for you.

CHAIRMAN GRUENBERG: Federal requires inter-agency rulemaking.

MEMBER HARTINGS: George, as you looked at HVCRE's, was there many comments on TDR's as well? I think what pains most institutions on TDR's is that life of loan label that you put on that. There isn't many regulatory announcements that require a life of loan. Was any of that addressed at all?

MR. FRENCH: I think you're going to have to help me out on the HVCRE issue with TDR's.

MEMBER HARTINGS: Well, it's certainly two different issues, but it probably deals with the same kind of clientele, commercial clientele. Again, my question is there any regulatory movement or room on TDR's?

MR. FRENCH: Oh, the idea that once you're a TDR you're always a TDR?

MEMBER HARTINGS: Again, that's --

MS. MILLER: Yes, we didn't really get any comments on that, Jack, because that is a FASB type of pronouncement, so it's not required by our regulations. There has been not necessarily an EGRPRA but other outreach sessions. A question to us as Cecil comes through, will the TDR go away, because if you're reserving for the life of the loan at the front end do you really need the TDR designation has been the question. And we can't answer it because it is a FASB pronouncement. But in this process we didn't get any of those comments.

MEMBER HARTINGS: Then the other question that goes to you Rae-Ann, the increasingly commercial roles appraisal from 250 to 400. What's the magic number, 400, 500? It's a lot easier to remember. In our shop simplification means a lot, so why not pick 500?

(Laughter.)

MEMBER MILLER: Well, you could pick whatever you want. I mean, there's sort of like, if you were to inflation adjustments, which we did

an inflation adjustment, it's about 440 or something like that. But it's an inter-agency process, would have to be a NPR that we'll have to develop and go out for comment, so it's a negotiation process just like anything else. I'm quite sure we'll get a lot of comments on that number and whether we hit the mark the right way.

MEMBER HARTINGS: You know, I think sometimes we look at inflation adjusted and by your own stats, I think since 2005, we doubled the size of deposits per institution. Certainly assets may be greater than that, but we have to maybe look not just at inflation numbers but actually size of institutions because size of capital, all that kind of, I think you look at that. I think the other thing, and I guess this may go more to the chairman's prerogative or initiative down the road, is I know EGRPRA we appreciate that, you guys looked at a lot of administrative rules and changed them which you can, but there's always this push-back when we get to statutory we can't make that change.

Has there ever been a thought process that you create a wish list of statutory reasons that you think should change because you see it hold up the examination process or the safety and soundness or compliance? And I don't know that EGRPRA will let you do that, but it would make sense that they're the ones in our institution, you’re the ones that kind of say this just isn't working, this should be something that needs regulatory attention.

CHAIRMAN GRUENBERG: Look, we have the ability is part of the EGRPRA process or apart from it to make recommendations for legislative changes. The report does contain some recommendations for legislative changes, which I'm open to suggestion.

MEMBER BEARD: Has there been any clarification of the guidance on real estate concentrations? I know we have had some examiners that seem to focus on our occupied versus unoccupied. Any thoughts on that?

MS. MILLER: Yes, we actually did issue

a reminder of our guidance and all the guidance documents that are applied to CRE which is not just the 2006 Inter-Agency Guidance, but we have Part 360 for the Safety and Soundness Regulations as Appendix A, Part 365 which are the Real Estate Lending Standards and there's some other pronouncements. So, in 2015 we issued a reminder of that. Part 364 talks about concentrations in particular and banks needing to monitor concentrations, so no matter where they are, so our examiners will look and will ask for risk management practices around any type of concentration. So, if there's a large concentration of owner-occupied, certainly you're managing it accordingly and they're looking for the risk management practices about that.

The 2006 Guidance talks about supervisory criteria and uses two different criteria, ADC, and then non-owner occupied, and non-owner occupied 300 and a three-year growth rate of 50%. And that doesn't mean other areas are not looked at; it's basically just a point where

supervisory interests and attention might be considered that we're going to be looking at your risk management practices. You're previewing my afternoon presentation; when you look at the language in that guidance, there's no safe harbor. I mean, concentrations need to be managed and we look at them wherever they may be. And again, there are no regulatory limits on -- those supervisory criteria are not regulatory limits.

MEMBER BEARD: I guess the specific question was I understand that guidance is on the 300, but does it exclude --?

MS. MILLER: It does, it absolutely does.

MEMBER BEARD: And we've had examiners that include it.

MS. MILLER: Ah, I see. Well, yes, and examiners for the purposes of the concentrations page, is that what you're talking about?

Yes, I mean, I think depending on the institution, no matter where the concentration is, you need to look at it and need to look at risk

management about it, but if they are calling that part of the supervisory criteria, that would be an error. But if it's concentration owner-occupied, I think that's appropriate.

MEMBER TOLOMER: So you're going to be speaking more in the afternoon about concentrations?

MS. MILLER: Yes, yes.

(Laughter.)

MEMBER TOLOMER: So, I'm going to hold my comment until then.

(Laughter.)

MEMBER SCULLY: Rae-Ann, can you summarize since it's such a new report, I don't think we've had a chance to look at the whole thing, what was the FinCEN response to some of the concerns about SAR's and --?

MS. MILLER: Yes, I can. And they actually provided us a letter that's appended in here, so it's a pretty easy read. Their response basically says we appreciate the comments and concerns and they tried to give an indication about

how helpful that the material is to them in their enforcement work. So, as you know, we don't have sole authority on those areas. So, that was sort of their response. Also in the report, I can't remember if it's Footnote #163 or, but we did append some resources that you can look at FinCEN's website where they actually go and do some data about how they have used the material that you provide. And this particular committee, I don't know if anybody was on this committee when FinCEN came and spoke, and I think they've done a lot of that and they have reports that show how they use the materials, so that's how they responded to that.

MEMBER SCULLY: So, essentially, we understand it's burdensome but it's helpful when we want to change it?

MS. MILLER: That's a good way to summarize it.

CHAIRMAN GRUENBERG: I'd like to come back on the exam process for the agencies, the great pursuit coming out of the EGRPRA process. I really

think it has some potential when we talk about burden reduction for institutions. I meet with bankers and hear as much or more about the exam process itself as I do about the regulations that they have to deal with both in terms of the time it takes to conduct exams or the number of examiners that have to be present on-site during the exam. Tom raised the point, the coordination of exams, by a particular agency or different agencies that institution might be subject to. So, I actually think this is an area that holds significant potential without undermining our supervisory standards and to reduce burden on institutions the meaningful way. And particularly welcome any thoughts you have today or going forward from your -- each of you has exam experiences, any thoughts you have on how we could improve the process. I think we are going to look hard at the potential of technology to be of assistance here.

We talked about earlier the use of technology to do more work off-site, and I think there's still significant potential there. So, I

think part of our commitment is to continue to think of ways to reduce regulatory burden, but I think this -- we have not done a real in-depth review of the agencies of the exam process itself and the exam report associated with it for a long time. We have the potential there of that work stream, I think all of the agencies are committed to it. I think has potential value and we're going to be looking for ways to outreach to industry for input on this. So, I just wanted to make a point.

MEMBER BOEKA: That sounds great because in terms of how long an exam on the site takes place, this agency really sets the norm and the expectation and the bar. There is no way that the State of California when it's their term will take less days than whatever this agency has done, so if there is a way to set a different bar and use technology, I think everybody else will follow.

MEMBER BUSSE: If I can add, when we have our exams, there was a tremendous change and very helpful to us, so the consolidation of those examinations and coordinations very, very helpful.

MS. MILLER: Just to your point, we talked very closely with our state counterparts on exam processes and I actually had a meeting on Friday with several states and tried to coordinate as much as possible on our processes.

MEMBER HARTINGS: Chairman, I think time on-site is really how we judge our examinations, so if you can reduce that from three weeks to two weeks, that's a real -- I mean, that is our time, that is the time we make sure we're there, we're having that conversation, I have all my senior staff there, so everything else gets shut down. So, that three weeks to two weeks means a lot to us. All the pre-exam that you got has been great, we've been able to give you the information, it's done in a more orderly manner. But I think the next part of that for improvement is that time on-site inside of our banks, would be helpful at least to myself and I think to my fellow bankers.

MEMBER BUSSE: Yes, but the one thing I would suggest to you, while it's helpful to have reduced time, I'm okay with having additional time.

But if what we experience continues, which is you're a growing institution, here are recommendations you might need to adopt to help us get to the next level, I mean that consultative approach has been very powerful for us because it's worked the time we spend in that additional time.

MEMBER HOWARD: Yes, I would also comment on that very similar point, the time that we spend, and for us exam we ended up doing it at the end of the week every Friday having kind of a debrief so that there was no point throughout the process how to do it longer than three weeks, but there was no point throughout the process where management and the examiners weren't touching base so that we were all on the same page, kind of understood what was going on. Occasionally, as a result of one of those debriefs, you would learn of an information request that you could fulfill right then and it just made the whole exam process just, much, much better. Much better. So I wouldn't want to lose that ability to have the very frequent conversations with the exam team

throughout the process.

MEMBER SCULLY: We have the same thing, and additional frequency, it just adds a level of predictability and transparency and it very much helped the process.

MEMBER TOLOMER: I learned something different in that I wasn't really focused on the time FDIC used on-site, and the reason is we did have the legal debriefing just like you did, Chandler, but also the interaction with the examiners to the bankers was of a caliber that everyone had done their homework. And so the discussions were professional agreement, but the reality was, and through the course of the weekly meetings we were able to change the group through change. So, I was less focused on the time we were there because the interaction was high quality, and so I'd be less concerned if it's two or three weeks or four weeks, but we're less concerned about that as long as the quality, the homework is done, the quality of the dialogue and the constant communication is there, it's less important.

Because, frankly, they sat in the conference room, they worked, then they came out and had something meaningful to discuss. And so from that perspective I can't even tell you how many weeks.

MEMBER MILLER: Yes.

MEMBER TOLOMER: I think from my perspective the last several exams we've had I started implementing a rule where I would call my local FDIC divisional person and say let's meet after every quarter to kind of go over what's happened in the previous quarter, what we're doing, what's happening at the site. Yes, and that has tremendously helped us, so the last several exams it's been they come in on Monday, they leave the next Friday, and that's it. And basically what they're saying is that we know what's going on here, they're just verifying what you've told us is actually there and we're in and out very quick. It's been amazing, most state and FDIC have been out in two weeks, and it's been great. They both come to our quarterly meetings, we have a cup of

coffee, sit down, here's our numbers, here's what we're seeing, we go over everything and they tell us if what they're seeing out there on the horizon, if what FDIC is seeing that, "Hey, be aware of these four, five items. Be aware of this or this is what we're seeing happening in the industry." So, it's very helpful for us, too, and it's more proactive rather than reactive, so we're able to go out there, make adjustments before you guys come in the next time.

So, it works very well and I would encourage everyone to do the same if they have the time.

MEMBER KELLY: I actually got a call from my Atlanta case manager off-site, new exam to go over the call for and go over some changes in call report and the findings of the state and saying that it just occurred. Yes, when you get a message from your FDIC case manager and you don't know why. It's like, "Okay, wait a minute."

(Laughter.)

MEMBER KELLY: First call in 14 years,

but I would mention to kind of echo what's been said is the consistency of the exam team. It doesn't have to be the same exam team but someone within that group needs to understand the personality and the functionality, I guess, for lack of a better word, of the institution. I mean, we do all have personalities in how we behave, what we do, how we do it, and that makes for, again, where you don't even realize it's three weeks because it's been a good three weeks. You don't have to re-introduce your institution to these people every time they come and see you. So, that goes down a lot.

Now, I really think it enhances the off-site stuff because they understand what the data means; it's one thing you gather data, but if you don't have an understanding of the data, then it's really, doesn't have a whole lot of value. So, I think the consistency is good.

MS. RYAN: Any other comments on the overall EGRPRA process or the port or the examination review?

Okay. If not -- we're a little bit

ahead of schedule, so we can break, take an early break for lunch, if that makes sense.

Okay. Thanks to Roberta, Ruth, George and Rae-Ann. And we're going to have lunch up in the EDR on the 7th floor, and I'd say about 11:45. So you have a few minutes to catch up on things.

Thank you.

(Whereupon, the above-entitled matter went off the record at 11:18 a.m. and resumed at 1:16 p.m.)

MS. RYAN: Welcome back, everyone. So we're going to now turn our attention to credit risk trends and supervisory expectations, topics that were outlined in the Supervisory Insights journal article from winter edition, and you should all have a copy of that article.

So we have with us here again Doreen Eberley, George French and Rae-Ann Miller to discuss this and other related issues.

So, Doreen, turn it over to you.

MS. EBERLEY: All right. Thanks.

We did issue our supervisory insights

just a few weeks ago, talking about some of the trends we were seeing and went into some depth there, but thought it would be good to have a conversation today and get some feedback from you on whether you're seeing the same trends in your markets or not. And we'll go ahead and kick it off. So I think Rae-Ann's going to start.

MS. MILLER: Great. Thanks a lot, Doreen.

And you should have a PowerPoint in your handouts from this morning that looks like that. And, yes, so this is going to -- all of these slides were pulled from the article.

So we look at three different loan segments in the article: CRE, agricultural, and oil and gas. And we chose those because of the trends that we're seeing in those areas: in lending themselves and then in the underlying fundamentals as well, and the importance to our institutions. We say in the article this doesn't mean that people that are looking at the article should think that we have a negative view of any of these categories.

And you should also know that we look at other lending categories as well, but just some interesting trends that we wanted to point out.

So with that, I was going to go to page 2 or slide 2, which is the first of the actual pictures. And this article was done as of September '16, so we obviously have another quarter behind us, but I did not update them for this presentation.

So as of September 16th this chart is showing year over year growth in total loan balances. And it was about 6.8 percent. And you should also know that a large majority of banks, about 80 percent of banks actually experienced growth in their loan portfolios.

The lines on this chart are subcategories that are tracked by the call report data. So as you can see, we're at overall over $2 trillion in total CRE. That exceeds the previous high of about 1.9 trillion in 2008. And there's been growth in all categories. The multi-family segment stayed strong throughout the crisis and

even into the recovery. It's a little hard to tell here because of the scale of this chart, but it really did stay pretty robust.

More recent growth has been centered on -- that top line there is the non-farm/non-residential category. It's the biggest category in general. But we also see some pretty good growth in the acquisition, development and construction segment. But of course that is coming from a pretty low -- it was high during the crisis and then dropped precipitously.

So overall growth we talk about a little bit more in the article, but it's basically just being driven by demand. We talk about the fundamentals in the market in the article, and in particular high CRE prices. We've got some -- we've got low cap rates generally improving vacancies, except in multi-family where vacancy rates are starting to show some cracks.

Moving to slide 3, we were talking about this a little bit earlier today. This slide shows the trend in the number of banks that meet the

supervisory criteria in that 2006 guidance. It's inter-agency guidance on commercial real estate. And these are banks that have total ADC loans of 100 percent or more of total capital and those that have concentrations in non-owner-occupied CRE and a three-year growth rate of 50 percent or more.

And then we talked a little bit this morning, but I want to say again what the supervisory criteria are and what they aren't. And I didn't have this in front of me this morning, but I'm just going to read a quote. The guidance says that, "An institution that has experienced rapid growth in CRE lending has notable exposure to a specific type of CRE or is approaching or exceeds the following supervisory criteria may be identified for further supervisory analysis of the level and nature of its CRE concentration risk."

So the supervisory criteria aren't regulatory limits or ceilings. They are basically areas where risk management expectations are definitely high, but there's other areas of the institution where we also have high risk management

expectations.

And the article also goes into some depth about the consequences of what happens when concentrations aren't prudently managed. And we cite some studies. And if you have a chance, these are pretty good studies our inspector general did that basically show aggressive growth in CRE coupled with poor risk management practices. Poor underwriting, loan administration were the proximate causes of most of the bank failures during this crisis.

And there's also another element where banks that relied on wholesale funding for that growth were also more likely to fail. And they also did a separate study for us on acquisition development and construction lenders, ones that survived, and what were the factors that helped them survive? And basically the takeaways were that they had a well-informed and active board and very strong risk management practices, adequate capital, and they tended to heed auditor and examiner recommendations. And in fact, they said

that this last point was a differentiating factor for those that failed and those that didn't.

So this here, what this is showing you is that at the end of the third quarter of 2016 there were 521 FDIC-insured institutions that met one or both of the two supervisory criteria in the 2006 guidance. So it's still well below that level observed in 2010. At that time about 15 percent of the banks, not quite 15 percent of the banks in the country were -- met these criteria. Now it's down to just a little bit over eight. It has increased the number even though it's still lower, has increased from 474 in the third quarter of 2015. And then the low point was in 2013 at 350.

So what we do next in the article; a little bit more detail, we've gone to look about how are these banks that meet the supervisory criteria -- how are they performing now and over time and how do we -- how do they compare to the general population? And when we talk about performance charts, we chose to use medians, which shows the typical bank versus averages which can

get distortions.

So I'm moving to slide 4, and this is sort of a snapshot slide. How are these institutions doing now? So at the median institutions that exceed the supervisory criteria have currently higher pre-tax ROA than other institutions, but in our view they're operating with a generally higher risk profile by any number of measures. Specifically they have lower capital, leverage capital ratios, lower total risk-based capital ratios and higher reliance on wholesale funding.

And then with respect to capital, we point out in the article that we do some time series on all of these factors as well, and we point out that since the publication of the 2006 guidance median leverage ratios for banks that meet the supervisory criteria have been roughly just over half of a percentage point to about two percentage points lower than the median for the general population.

So institutions that exceed the

criteria as a group are also exhibiting faster loan growth in other institutions, and that probably shouldn't surprise us since one of the factors in figuring out whether you meet the prong is growth. But one thing is that when a bank is growing that kind of growth can mask building risk sometimes because it typically drives down the ratio of past due loans and charge-offs as well as, at least the current model, it can make the allowance for loan and lease losses look strangely low. But this may be part of the reason why when you're looking at this chart institutions that exceed the supervisory criteria, they have currently lower ratios of past due loans and lower allowances relative to other institutions.

But I just picked on slide 5 one of the time series charts for asset quality just to show those ratios are low now, but obviously asset quality was a serious problem in the crisis and even during the recovery for many banks. And so this -- what you're watching -- what you're seeing here is the past due loan ratio. Delinquencies for

institutions exceeding the supervisory criteria were much higher for a longer period of time than for other institutions. And we didn't show it here, but in the article we do a time series on charge-offs that follow a very similar pattern.

The next slide, slide 6, is showing some performance of these institutions. You could see that at the median pre-tax ROA for the ADC lenders dropped very steeply and was then in or near negative territory for about three years in the aftermath of the crisis. Earnings criteria for institutions that met the growth prong was certainly a lot worse than other institutions, but tended to be at the beginning of the period, the late 2000s and early 2010s.

But what I thought was interesting about this chart is that the medians are much higher than the general population -- are higher than the general population in good times, but not really by that much. So at the median the question is did the -- the ROA doesn't seem to have matched the risk in these institutions. Profits evaporated very

quickly and very deeply during the crisis, especially for the ADC lenders.

Moving to slide 7, this is an interesting slide for us, and it's sort of an emerging trend. It kind of shows how institutions that exceed the supervisory criteria are making use of wholesale funding. So the use of wholesale funding by institutions with ADC concentrations has trended downward, still remains slightly higher than that of other institutions, but the use of wholesale funding by institutions exceeding the CRE growth prong of supervisory criteria remains quite a bit higher than that for other institutions.

And we talked about earlier and it's in the article quite a bit is these IG reports and many other studies typically noted that reliance on wholesale funding was a contributing factor in many of the failures.

So moving to slide 8; and this is a little busy, but -- and there's more detail in the article, but I wanted to kind of talk a little bit

about there's metrics in the call report, but we talk about forward-looking supervision being not just metrics, but how are banks managing around those concentrations? And we just wanted to get a sense of some things that our examiners are seeing. And we do regularly chat with examiners and have meetings to discuss credit risk trends. And this is just sort of a snapshot of some weaknesses that they're noting.

And I don't want to read them all, but a few things that I did want to point out for you is within the category of weakening underwriting practices. We are seeing increasing, in some cases excessive use of cash-out financing and IO-type of lending, sometimes together, and particularly in certain markets that are very, very competitive. We also see low cap rates particularly in the multi-family segment, but also some examples of low cap rates in other segments of CRE. And I presume when we get to the discussion point, we'd like to hear if that's something that you're seeing as a competitive issue.

MS. EBERLEY: And, Rae-Ann, can I jump in here a minute?

MS. MILLER: Please.

MS. EBERLEY: I think one thing to make clear is that these are not the things we're seeing at every institution that's concentrated. It's just that those where we're citing weaknesses, these are the weaknesses --

(Simultaneous speaking.)

MS. MILLER: Yes, I should have made that clear. Yes, this is not widespread. It's just things that are an emerging area.

MEMBER HOWARD: But they are some of the same things that we hear from a competitive standpoint when we're looking at a deal.

MS. MILLER: Yes.

MEMBER HOWARD: And we can't make it --

MS. MILLER: How do they do it? Yes.

MEMBER HOWARD: We can't make sense of that.

MS. MILLER: How do they make it work?

Yes.

MEMBER HOWARD: And how do they price it if they don't reprice for the risk and then they adjust some of the other underwriting? So we appear to be not competitive in some of these cases.

MS. MILLER: Yes. So I'll move to slide 9. This is another one that's a little bit busy, but I wanted to talk a little bit about agricultural banks. So in the article we note that about one in four banks in the United States is characterized as an ag bank, and that's a definition that we have historically used in our research, in Rich's research. That means a bank where ag loans are 25 percent or more of total loans. So that actually captures a lot of banks.

But we wanted to be a little bit more focused in the analysis because a lot of ag banks don't actually have a lot of loans. So what we did was to get a more focused group we actually took a look at banks that had a 300 percent concentration or more in total capital in ag loans. And again, it's an analysis cut. It's not a supervisory or

regulatory limitation or ceiling. We just kind of wanted to look at performance of concentrated institutions over time. And particularly during the last few years there's been an environment of low and volatile prices in commodities.

So as of September there were 500 banks that exceeded 300 percent or more. And this slide shows ag loans are growing in general after being flat during and just after the crisis. And probably not surprisingly they're growing faster at those institutions with existing -- the 300 percent.

The rise in ag lending is due to a number of factors, of course. We do talk to our examiners in the middle of the country. And I'm sure you guys -- Tiffany probably has a better sense than I do of this, but what they report is a number of farmers who were self-financing. They had been flush with cash when prices were high in the earlier part of the decade. They're now having to come back and finance because they've exhausted those stores and they've got diminishing working capital

positions, is sort of the story that we've been hearing.

On page 10, this is the same chart of median ratios that I showed for the CRE banks. And what we did here though is we showed the ag banks that have the 25 percent of their loans in ag and also the 300 percent concentrations. And similar to those -- to the CRE institutions, those with ag concentrations have higher earnings than the general population, but they're also operating with somewhat lower capital ratios and greater use of wholesale funding.

Unlike the CRE, those loan growth rates are slower than other institutions, and institutions with ag concentrations have slightly lower ratios of past due loans and slightly lower allowances relative to other institutions. And it's -- there has not been at least stress in any -- any stress that's been in the ag economy, have not thus far shown themselves to a meaningful extent in loan delinquencies, unlike the CRE where there's been a lot of growth, sort of seems to be logical

for the low past due rates.

We also -- I didn't pull them here, but the article has some time series charts that show performance of ag banks over time. And those that are concentrated generally weathered the 2008 financial crisis much better than other types of institutions. Their financial performance as a whole remained very good heading into 2016, and none of them, neither the ones that have a 25 percent of their total loans in ag or the ag concentration institutions, experienced that pronounced decline in ROA that other institutions experienced during and after the crisis.

So page 11, slide 11. I did want to point out -- again this is another emerging trend for ag banks and ag-concentrated banks where their reliance on wholesale funding has increased quite a bit in the last few years. We think this may be in part a way to meet the increasing loan demand from farmers in response to their stressed farm income.

And when we talk about ag, people really

haven't perhaps thought about this sector lately. It's been awhile. The 1980s was probably when we had a number of ag banks that were in crisis when people may have thought about it, but declines in commodity prices, farm incomes that have occurred. There are still cyclical factors that can affect those borrowers in that sector.

So again, we've had some recent feedback from the FDIC examinations. Just like I did with the CRE, we talked to our bankers, I mean, our examiners in the middle of the country. Not everybody, but some instances have been noted where the borrower cash flow margins are eroding or negative. Carryover balances have to be restructured into longer-term loans.

In particular, we have the borrowers that have a high operating -- high-cost operating structures, and this is usually people who rent rather than own the farms -- are more heavily indebted than others and seem to be coming back and experience the most cash flow stress. And the ones that have their properties rent-free seem to be

better positioned to deal with the depressed commodity prices is what we're hearing.

So moving to slide 12 and getting into the oil and gas area, unlike CRE and ag we don't have a call report item that tracks oil and gas lending, but we do have -- some of the larger banks have issued public pronouncements about some of their exposures. We have publicly available shared national credit results which talk about disproportionate impact from oil and gas lending.

So in the article we kind of look at overall C&I lending as a -- not necessarily a proxy for oil and gas, but certainly there were -- delinquencies had gone up the last few quarters, probably driven at least in part by oil and gas lending.

And direct lending to oil and gas producers is in that loan category of C&I, but it's harder to get a handle on the indirect lending. And I know a number of you operate probably -- and I know, Asif, in these areas, but there's a lot of indirect lending to support services, trucking

companies. And you've got even restaurants and people building houses for oil field workers and those workers getting mortgages.

So this slide here, we tried to take a very broad brush attempt, if there was a way we could try to capture sort of that indirect performance. So all we did here was we showed the median, non-current and past due rates for banks that were domiciled in three energy-dependent states: Texas, Louisiana and Oklahoma, and just compare it to all other institutions.

And of course this does -- these states, many other industries are important to these states. Performance trends are going to be driven by a lot more than just oil and gas. And certainly these levels are not eye popping and manageable, but it's reasonable to assume that the overall deterioration in the energy sector is probably a factor.

Feedback from our examiners show very few banks have direct exposure, but they do have some downstream exposure to support industries.

And in some examples examiners have reported back in particular loan policies haven't been covering these types of indirect lending and the tracking of indirect lending has not been appropriate in some cases.

MS. EBERLEY: Or factored into allowance methodology, so really thinking about the indirect exposure and how it could hit your portfolio and then factoring that into your analysis.

MS. MILLER: Yes. And slide 13 is just -- we go into a little bit more detail about what all of these pronouncements say, but this is just sort of a list of resources, chronologically basically, or close to chronologically that we've issued on lending in general and these particular issues.

So we have basically longstanding expectations for prudent credit risk management. All of our guidance centers around adopting and implementing lending policies, practices, underwriting, all of those things that are

appropriate for the size and complexity of the bank's business model and maintaining strong administration oversight of lending activities and the related funding strategy, which is that emerging trend of more wholesale funding, as well as ensuring adequate allowances and capital levels.

So we talk about -- this is not news to you, about risk management around loans is critically important. It's something we spend a lot of time on at the exam. It's for the most part the biggest asset class in most institutions. And then we go back at the -- in the conclusion of the article to talk about the studies again and the serious consequences of not appropriately managing your risk and that now is the time to focus on strengthening the risk management practices as portfolios and concentrations are building, but before problems hit the bottom line.

And then especially now when loan demand is strong; Chandler just talked about it, competition can sometimes tempt institutions to do

something you might not normally have done. And underwriting standards get loosened and loan administration practices sort of can slack off, so in order to keep your market share and stay competitive, like you just said, we see a little bit of that happening now in certain instances.

So those are sort of the major takeaways, but George wanted to say a few remarks before we turn it over to questions.

MR. FRENCH: Yes, so I just wanted to say a few things about the observations Rae-Ann made regarding the use of wholesale funds by banks with concentrations.

So as she said, the article points out that as a group banks with commercial real estate and ag concentrations are making greater use of wholesale funds including broker deposits and listing services. And the article also points out that reliance on wholesale funding was a risk factor for bank failures in the crisis.

So in this regard a couple of things come to mind. First there is nothing inherently

wrong with wholesale funds. They can help match in balances between prudent lending opportunities and core deposit availability in the local markets. They can also help banks that are trying to match maturities between assets and liabilities. So there's certainly room for a prudent use of wholesale funds.

Part of the difficulty of assessing the risk off site is that we really need to understand the risks the banks are taking on the asset side, what they're doing with the funds. So that's a very important part of what we do in the exams focusing on the loan underwriting and other issues that Rae-Ann discussed.

Another important aspect of what we need to see on site is the -- sort of the bank's overall funding strategy. And it can be hard to assess off site. So for example, a bank might be making use of high-cost Internet deposits, and from our off site information that would just be lumped in with other core deposits if they're not brokered and they're not listing service deposits.

So having said all those qualifiers, I think as the article says a confluence of these concentrated and risky or rapidly growing loan portfolios with reliance on wholesale funding is a risky mix, so we continue to sort of preach that supervisory message of prudence and the kinds of things that Rae-Ann was discussing.

Now even as this article was being prepared we saw the interest rate environment start to change and we've seen two changes to the federal funds rate in the last couple of months. I think we'd be interested in hearing from you not only about all the issues with concentrations, but what you're seeing in your markets. What are you seeing on the funding sides in terms of deposit pricing, depositor behavior?

I think we think that the rate increases are probably good news for banks with good core deposit franchises for many banks. There may be banks that have more reliance on reg-sensitive funds. And especially if they have asset quality problems or develop unexpected asset quality

problems, that could pose issues with their fund providers, their counterparties and could lead to liquidity pressures.

So having said all that, we're going to throw it open to you and hear what you're seeing in your areas.

MEMBER HOWARD: Surprisingly, at least in our market area, we have not seen any increases on the funding side. We anticipated that we would begin to see that sooner than we are. The larger institutions and even the smaller institutions are pretty much holding stable on the funding side.

On the other side where those institutions have a lot of variable rate loans, obviously we're beginning to enjoy a little bit wider spread there.

I just had a question on slide 6 that you had here in your package there where it shows for acquisition and development of loans, right?

MS. EBERLEY: Yes.

MEMBER HOWARD: What would explain that sawtooth there?

MS. EBERLEY: Probably it's seasonality and when you're taking your charge-offs. So oftentimes you're going to take your charge-offs at the end of the year. It's a very --

MEMBER HOWARD: And so you're doing better for a month?

MS. MILLER: Yes. It's very marked, but yes, quarter end.

MEMBER HOWARD: Say for a quarter?

MS. MILLER: Yes. When the examiners came in.

(Laughter.)

MEMBER BUSSE: We have not experienced any noticeable change with deposit increased interest rate activity on the deposit side, so with regard to our core deposits, they're primarily core funded with deposits, etcetera. But I would say that our anticipation is another couple of increases we'll see pressure.

And to your point, if you're a fixed-rate shop like a lot of banks are, if you're

an 80 percent or something, you're going to see a squeeze start to take place. There's also some pressure right now on the competitive front where people are trying to lock in rates, so you might see an increase of loan activity that will take place where they're trying to lock in long-term rates. That could create a future squeeze. And so how much of that is taking place and what kind of activity is it where you can reprice? That could be a future risk as well.

But I would say that for the most part there's been no noticeable change yet. Our manager's margin remains fairly stable and our yields are up slightly, which is good. So the net effect has been a positive effect on a monthly basis on the interest income side at present for us. And it's minor, but it's still noticeable.

MS. MILLER: And do you have a lot of variable-rate loans? I'm sorry.

MEMBER BUSSE: We only have about -- no, we don't have -- most of ours are fixed-rate loans. But that's where the benefit took place.

And so that's why it's more modest for us than it would be for other institutions.

MEMBER HOWARD: And so we have a lot of variable rate paper, and while we didn't have the earnings over the past several years to the extent that we might have gotten with fixed-rate paper, it was kind of deliberate to take a little less in earnings, take a little less risk that way, but hopefully getting when rates increase, and underwrite appropriately as well. That's where the underwriting -- in a lot of cases we just couldn't make sense of it, particularly going out with fixed-rate product for -- in commercial real estate for long periods of time. And we just couldn't compete with it.

MEMBER SCULLY: I think we're seeing a lot of the same things. I mean, on the deposit side we've not, knock on wood, seen any pressure on deposit pricing. We've seen a little bit of increase in the fixed-rate loans, but the interesting thing is that we're still seeing a huge appetite on the part of our competitors in doing

the 10-year fixed rates and in some cases 15-year fixed-rates which --

MEMBER HOWARD: Fifteen-year fixed-rates.

MEMBER SCULLY: Yes, and on one hand you can say, well, it's reflective of the yield curve. You've got a flat yield curve and the 10-year hasn't changed as much as the short-term. Some of them are also going with shorter amortization schedules, and so I think they're justifying it that it's really only a seven-year average life. But for whatever reason I think we've been a little bit stunned by what you're seeing here, there's still a lot of go, we want to do a lot of this, and consistently less stringent underwriting.

So we're usually less concerned about the rates and the yields because we have a similar funding strategy to Roger, but the underwriting just gets weaker and weaker in terms of the percentage of non-recourse and the LTV percentages and the debt service coverage percentages.

And one of the things that we're also seeing is that it's the CMBS market and then you still got stuff coming off. And I don't know much of what you think has been growth in here is really just a shift in market share, but certainly some of what's happening is not necessarily an increase in CRE activity in the market as much as banks are getting a bigger share of it because people aren't going to the CMBS market to refinance.

MS. MILLER: That was definitely evident especially in the larger institutions. They were just keeping more of those high-yield assets. So why give it to the CMBS? But we did see a new deal in the fourth quarter in CMBS. It was a pretty big deal.

MEMBER DAKRI: We've seen in depositories something little bit unusual, because we have metro areas and also rural areas. So in the metro side not much movement in rates. Pretty stagnant there as far as depository rates, but in the rural areas we've seen a lot of the banks -- maybe not recently, but in the last year,

year-and-a-half they've been increasing their rates, their CD rates. They're more of a bond bank, if you will.

They're going out, buying annuities, extending their maturities and their duration on all their portfolio. And in order to do that they're going out offering 135 on a CD. This was 12 months ago and you're kind of shaking your head going what, what are they doing? But, so that's the only real difference we've seen. In the metro areas, the Houston and Dallas area there's not much of a change. Still see the increase out there in the country.

MEMBER KELLY: How do you explain the delay? I mean, what do you guys think is causing the delay in the deposit reaction, or is there --

MEMBER BOEKA: I think that our clients are desensitized and fatigued. And because of that we haven't seeing flight to other sources. But it's still early in the game. All of our modeling shows that -- and we're a fixed-rate, five-year maximum. Eighty percent of our loans

are fixed-rate five-year. Life is less done by this because of life.

(Laughter.)

MEMBER BOEKA: Sales and not so much refinances, but change of ownership. But then when it accumulates to one percent more than what it is right now, when we did the last modeling, at that point every single indicator begins to move. So that's when the needle moves. But we're watching all of our time bases to make sure that they're not baulking from institutions and we haven't seen any change in behavior other than our competitors are the credit unions, and that's where the money goes. Whenever it has to go some places, it goes to credit unions.

PARTICIPANT: That's what happens when you have to pay taxes.

MEMBER BOEKA: Yes.

(Laughter.)

MEMBER HARTINGS: I don't know if I can add any on interest rates, what we're paying on depositors. I think the same way in our area, that

it's not changing.

Might reflect a little bit on agricultural credit. We're not considered an agricultural bank, but we still do a fair amount. We're seeing those funds being used out of their accounts, their DBA balances being drawn more than lending. And even in your examples it's kind of interesting that even the high concentrated only grew by five percent of loans. But we definitely are seeing -- which is kind of good news. They've kind of built up their reserves and they're starting to use it now. So we are seeing that those DBA balances get drawn down. So that's I think a fact that we've seen in the agricultural community.

MS. EBERLEY: Yes, I think that's consistent with what we're seeing by and large in the Kansas City region, that the farmers have gone from being net depositors to net borrowers.

MEMBER BEARD: I'm curious, is there any study where you've looked at non-interest bearing deposits and how they've reacted historically? So in Utah it's very similar to

what's been said, but there's a lot of banks that have high -- we're about 31 percent of our deposits are non-interest bearing. And I've been concerned, as was said, that when you get over a one percent move that you're going to have people suddenly paying attention, whereas up until now it's been you don't get anything anyway, so it doesn't really matter if you leave it there.

MS. MILLER: I am not aware of any study; we haven't conducted one, on the behavior of deposits, but it's interesting. And added to your interest is we haven't been through a cycle like this to when the account opening procedures are so different, people are used to opening up even transaction accounts online.

So I see some of the specials and people trying to lock in. I've been noticing some specials. And there are sites that actually aggregate the specials. So if you want to open up a new checking account, who's going to give you the biggest bonus? And because they're trying to get you in there with a transaction account before

rates start popping. So I think just because they're interest bearing or not, this is going to be a really interesting time frame and see who chases what.

And like you said, the fatigue. When that runs off, are people just -- when will clients start demanding is going to be very, very interesting. I was very interested in your conversation this morning about breaking down the different deposits, because I've been very interested to see what these trends are going to show.

MEMBER MENON: Well, can you testify on the cap rates? I mean, we have certainly seen the cap rates being a problem in Nevada. Some of those rates are as low as four percent and borrowers are coming back to do cash out transactions. And we're seeing more and more of that. And as the value of the property is going up, they want to take more cash out. And there are banks that are accommodating that kind of stuff. We have so far said no. We may allow a small amount for some

property improvement or something of that sort, but aside from that we have just kind of turning them away. But there are banks that are accommodating those kinds of things.

MEMBER KELLY: Is there a common type bank? Is it regional banks that you're seeing that are relaxing the --

(Simultaneous speaking.)

MEMBER HOWARD: I mean, I just think about what I hear from some of our lenders. In fact, a couple of them a few weeks back, because I'm pushing them to do more business, came in and handed me a couple of charge sheets that they have that are both from larger lenders and they were trying to explain to me why they couldn't compete. But the ones that I'm a little bit familiar with, it tends to be the bigger lenders. And if you dig a little bit deeper, it always seems to fall into, well, we have a broader relationship with this particular client, so we can make this exception. But still at the end of the day we can't compete with it.

MEMBER BUSSE: I would agree with that. I think it's larger institutions. It's not necessarily your community banks you're competing against. If there's a relaxing of standards or waiving of some kind of guarantee or recourse, we're seeing it more in the larger institutions. Rates are much more competitive, or that's where rate pressures take place as well and they extend their terms. I think that would be the majority of our experience.

Anecdotally I can tell you we've said no more than we've said in the past and it's because of folks who tried to draw equity out of businesses, even with the low cap rates, and we're not very fond of that unless it's used for improvement of the property or it just doesn't make much sense. To me that's always troublesome. And maybe it's a good practice on their part to get additional money out at a low interest rate, but we've typically seen that side.

And then also there's been a push to speculate on some development projects that are

overdue in some areas because people are trying to again lock in their projects at a lower interest rate. So there's been a reluctance to invest in those or take those kind of risks. So it's interesting. And you'll see probably a lot more of it, but thank you for the information.

MEMBER DAKRI: On the oil and gas side of things, are these only Texas, Oklahoma and Louisiana banks?

MS. MILLER: We just used banks domiciled in those -- so it would be wherever your domicile is in those states, yes.

MEMBER DAKRI: In those states? Okay.

MS. MILLER: Yes.

MEMBER DAKRI: I was just curious, but I've seen in my experience of the last several years that we've had some out-of-state banks doing loans- in the area and I think they probably got hit probably worse than the Texas banks did, because we understand that we're in a ghost town, whether you're going 25 years out, or --

MS. MILLER: That was the feedback when

I did a Houston round table down there. That was -- the feedback was, boy, we're in the final throes of expansion here and then a big bank from California comes in and starts do to this stuff and there's stuff that they didn't want to touch.

But, yes, this is a very broad brush. We don't -- it wasn't -- it was just sort of a proxy.

MEMBER DAKRI: That actually happened in 2007, too. We had a lot of out-of-town -- out-of-state banks, I should say, come in and do crazy stuff.

MS. MILLER: Yes.

MEMBER DAKRI: Still keeping in touch.

MEMBER KELLY: With your multi-family ADC stuff, is it captured in the -- somebody's who's been in like acquisition development on multi-family captured in that ADC, or I mean a --

MS. MILLER: Yes, if it's building a multi-family unit, it's going to be captured in the ADC.

MEMBER KELLY: Okay.

MS. MILLER: And when permanent

financing comes in on the business when it's complete, it's captured in multi-family. Good point, though. CHAIRMAN GRUENBERG: I'm going to say this has been an interesting discussion. Does this feel like, you all -- we're at a bit of an inflection point in this cycle here from your perspective, I'm just sort of curious from the standpoint of your institutions, or not necessarily?

MEMBER SCULLY: On the asset side?

CHAIRMAN GRUENBERG: Are your lending activities pretty much continuing?

MEMBER SCULLY: Yes.

MEMBER HOWARD: In our case we have -- whenever we've had the opportunity for a refinance with an existing customer, we would do it, but we'd always do it to a variable product. So we have a lot of variable paper. So if it was an inflection point, even though it's underwritten, we believe very conservatively, you know, 25 or 50 basis points doesn't have very much of an impact, but if it gets to be 150 basis points, we'll hopefully have

done our underwriting the right way.

MEMBER HARTINGS: Yes, I think we're also in this with -- if I would have done this 20 years ago, I would have had a much higher loan to deposit ratio. I'm going into this with about a 60 percent loan to deposit ratio, so I've got investments, I hate to say to burn, but I can burn off if I need to. So that's another reason why you probably don't see the competition to rates yet.

Liquidity is another issue. We probably have all sat on a little bit extra liquidity kind of wondering what to do, kind of letting that go off a little bit.

And then I give I guess our customers a little bit of credit. And I look at the agricultural customers, that I give them credit for having that money put back away. At least they're starting to use that first. They don't have to refinance what they've got right away. So I mean, I think there's a little bit of planning out there as well. There's a little demand.

And what happens when we're all done

with that? Then we're at the next step. But I think that's what -- that's at least what we're seeing in our area right now.

MEMBER SCULLY: I also think it's an example of maybe the banks just being a little bit more disciplined.

MEMBER HOWARD: Yes, I think you're right. Yes, particularly on the deposit pricing side.

MEMBER SCULLY: Because everybody knows that once two or three people move, it's -- the dominos will start to fall and I think people are just being more disciplined on that side. Maybe less on the asset side.

MEMBER HOWARD: But I don't even hear about it at the Safe Banking Association meetings. You don't hear anything about any plans to raise rates on the deposit side. It's not even really a topic where in past volatility with rates, a lot of the talk was about the -- when I raise rates what it's going to cost me. And how you're -- there seems to be very -- not much conversation.

MEMBER BEARD: I'm curious. Has there been any study of the credit unions, because in Utah you have aggressive pricing on deposits from credit unions. And like I said earlier, we're not seeing it in the banks, but it's -- there's billboards up and all sorts of things. And I'd be curious to know if anyone is looking at the risk from a credit union standpoint on the banking.

MS. MILLER: Yes, we don't have any projects underway. Like I said, as things are moving through, I think we're going to be observers and -- active observers like you all.

MEMBER KELLY: Yes, for an insurance company.

MEMBER BEARD: Is there any coordination with the NCUA in terms of what they're regulating or their concerns?

MS. MILLER: We -- the NCUA is on the FFIEC, and we do have regular conversations with them on a staff level as well.

MEMBER DAKRI: I think when we're asked about an inflection point, in the Houston market,

Texas market we're running a little bit counter-cyclical to the rest of the national economy. We were high when everyone else was low and we've kind of dropped down a little bit in the last couple of years with the oil prices coming down.

There was a thought recently with OPEC changing their mind and cutting production that things would start coming back. And we saw a little bit of a bump, but now we're kind of stagnated again with oil prices. So personally for me I think we're at that little bit of an inflection point where we've got to start increasing, or we could just fall right off again.

A lot of people have burned through their cash reserves the last couple of years related to that field. While some of the manufacturing has come back, I think it might be short term. Some of the quotes out there, there was 1,800 rigs in use 2014. It went to 400 nationwide in February of last year. We're back over the 700 range right now, but the thought

process is we're not going to go back to 1,800 any time soon, if at all. So I guess the new norm is about $50 a barrel. Is that what we're going to look at? And if that is, it's going to create a lot of ripples I think overall in the real estate market especially. They're just not there, the Class A, as we discussed over lunch.

The office market stateside is pretty shot in Houston, I'll say that. It's not in good shape at all. And what's the next domino to fall in that respect? So that -- we are I think at somewhat of an inflection in the local Houston economy.

MEMBER SCULLY: It's much harder to get around in the mix on the deposit side, but the other thing that's curious is how different asset classes are going to perform within that side, because when you start to look out -- I mean, the industrial platforms, it seems like it's a lot more stable than office and retail. And this is the first time I think when office has really started being a little bit suspicious. And if you start thinking about

really long-term trends, you'll just get scared to death about either office or retail.

(Laughter.)

MS. RYAN: Okay. Well, thank you, Doreen and George and Rae-Ann.

And we'll move onto our last panel, which is on the Youth Savings Pilot and Symposium. So we introduced the Youth Savings Pilot in 2014 and last year we had a symposium.

So to discuss that we're going to have with us Mark Pearce again back. And joining Mark is Janet Gordon, Associate Director in the Division of Depositor and Consumer Protection, and Luke Reynolds, who is Chief of the Outreach and Program Development Section in the same division.

So, Mark?

MR. PEARCE: Great. Thanks, Barbara.

So this morning when we were doing the community bank initiative, I felt a little bit left out because Doreen, if you remember her remarks, she help up something that was released.

(Laughter.)

MR. PEARCE: And then it went to Diane and she held up something.

(Laughter.)

MR. PEARCE: And that was released. And I felt left out.

(Laughter.)

MR. PEARCE: So I came back again to hold up what we're releasing this afternoon, which is a report out from our Youth Savings Pilot. I'll let Janet and Luke do most of the heavy lifting in talking about the two years that we spent looking at the intersection between financial education and opening accounts for young people. Really a tremendous project and really ties together two different things that we do. We've had a long-standing commitment to financial education, helping people manage their finances and also helping bring people into the banking system, connect them to an insured depository institution.

So with that brief intro, I'll turn it over to Janet.

MS. GORDON: Great. Thanks, Mark.

Yes, hold it up.

(Laughter.)

MS. GORDON: It's in your package. That's sort of a pre-copy.

As Mark said, this is really a long-standing commitment to financial education from the FDIC, as you are probably well aware. It's the 16-year anniversary of Money Smart. And we have Money Smart for adults and Money Smart for young people, and they continue to offer free comprehensive curricula in a format that's easy to download and can be used in a wide range of settings. And today the report is available online at fdic.gov/youthsavings, to anyone who wants it.

And it really is a report on the key lessons we've learned from the Youth Savings Pilot. We're excited to discuss the findings and to get any of your feedback on how we might encourage other financial institutions to support both youth financial education and youth savings.

So the two-year initiative involved 21

banks of all sizes. It was really designed to link financial education to savings. And Luke and I will go over the context of the pilot, what we -- why we did it, some of the lessons learned about the models used, the account types and characteristics and why they're particularly responsive to young people, and the educational elements. And we'll talk along the way about the benefits to both students and banks.

So take yourself back to the time when you went to school, either as an adult or a parent, or as a student, and recognize that this is really a part of our work to promote broad economic inclusion.

So schools are central to communities, and we all really recognize that. And the focus is on schools that have a significant proportion of low and moderate-income students and on bringing them into the financial mainstream at a young age. And we've seen that the work of the banks in this pilot really does that effectively. And not only that, but it coalesces parents, teachers and others

around the impetus to improve the lives of their children. And that's a huge motivator for everyone, including the bankers.

So this all got started several years ago. Nothing gets done too quickly. We've been working on this for a number of years with our other federal partners as part of an overall federal initiative to support the financial capability of young people. And we did this because financial education, like every -- almost every other kind of skill, is best developed at a young age, both the executive skills necessary to sort of plan for the future and the very basics of what is finance and what is compound interest and other good subjects like that.

So we really looked at the long-standing benefits for young people and their families and we knew from research that it's more effective when students have an opportunity to have an actual savings account. So hands-on learning, once again in educational parlance, is the way to go. And Treasury research specifically found that

students have a better concept of finance and also a more positive attitude toward banks and are more likely to have bank accounts if the banks have a branch or outlet in the school. So this is something we wanted to focus on.

We also knew that a lot of banks are already doing this, but we didn't know who they were. So the two-year pilot began really with the objective of identifying and highlighting promising approaches to that experiential financial education that combined the federal -- the financial education with the opportunity for a savings account.

And we asked for expressions of interest from institutions around the country and then we selected 21 banks, both those that had been doing this for a number of years because we figured they had something to teach us, and also we went to institutions that just wanted to do it for the first time and were ready to sort of leap off the diving board and get in the water and try and swim. So we were trying to do a little matchmaking there

by having institutions teach each other something. And that was sort of a core feature of the process of the pilot, to have the learners and the teachers at the same table. And that really worked well.

We had almost 100 individual interviews during the course of the two years. Lots of group calls where the learning took place. We were really providing each other technical assistance as well as we worked very closely with the schools themselves. We actually interviewed the school leaders as well.

And then the pilot participants said that wasn't enough. They wanted to come to Washington and talk to us further. So we had a symposium. Nineteen of the twenty-one banks sent representatives, and about nine schools as well. And they helped us refine what we learned.

So what did we learn? Since time is really limited, we're going to talk about three things: the program types -- and Luke is going to talk a bit more about the types of savings accounts and how we sort of learned about success along the

way.

So the report has a lot of detail on the three basic program types that banks adopted. And so I'm not going to go into excruciating detail, but there were three approaches, and they were used in a very flexible way: based on the community, based on the bank, and based on the age of the children.

So some banks actually started full-scale bank branches in schools, and they did this, a permanent branch on school premises, usually for older students who may even be working and may even have significant income. They used experienced bankers in the school, but they generally also employed students in the branch. So some of them actually employed students, and that was a very extensive training program and a learning activity and a career development approach. But others had volunteer students.

And the on-site bank branch really allowed for a lot of financial education that was very hands-on and helped people save throughout the

school year and really build a very robust concept of what a bank was and how they might get involved in finance even as employees.

In-school banking is the second model, which really is sort of like having a banking day and showing up at the cafeteria, the library with a banker and linking very closely to the teachers and what they're teaching that week, as well as employing volunteer students. And often this is younger people and even kindergarten, first, second graders. So it can be very interesting to see kids grab onto serving their peers and educating their peers.

And finally, some banks simply did the financial education in the school, but then took people to the branch, to young people to the branch. Sometimes had family days, sometimes also combined it with a tour of the branch. So it was a connection to the local branch. And to some extent that was possible in communities where the school was close by and where that worked well, but they also provided transportation.

So as I said, the models were used in different situations. Some banks used more than one. And there were really several things that contributed to success, and it's a fairly long list of why it worked. Certainly the enthusiasm of the banker and the champion at the school was part of that.

Bankers really learned that a partnership with the school requires an investment. It is not something that is one and done or happens overnight. It is like a customer. If they happen -- if the school happens to be a customer, the school system, that's good, too, but often the connections were made through family and friends. This is not surprising. But it really took time to develop clear expectations and trust, and often it helped to have things written down.

And the other thing that helped was really involving the students very closely in the process. So we all know that maybe having a banker come in and talk about a bank has one potential impact, but these folks really had older peers

teaching younger peers, and that really engendered what we'll call sort of leadership from the older students. And maybe they even thought banking was cool because the younger students get to see an older student really engaged. There was a lot of inter-generational education that way, and it seemed to work very well.

And finally, there was a definite impact in the broader community. Banks generally felt that -- three-quarters of the banks said they engendered new accounts and new relationships, PR and other factors that was affecting their visibility in the community and their long-term deposits. And one bank even went so far as to make mobile banking an important part of the process and maintained their connections with students as they left town and went to their usually nearby college or work environment. So it really allowed for that growth in a relationship over time for some of these institutions.

Luke, you want to talk a little more the accounts and the account characteristics?

MR. REYNOLDS: Certainly.

So all banks in the pilot offered savings accounts. Some also offered transactional accounts, particularly for high school students. The accounts offered were generally low-cost, consistent with the FDIC model Safe Account templates.

Three common ownership structures were: first, non-custodial accounts. So the advantage to these were that minors could open these up in the school without having to have the parent complete paperwork and send it back and the learning opportunity for the student is maximized.

The second type are custodial accounts where a parent or guardian is the custodian. These have the advantage of particularly have the opportunities to involve parents in the program. And they're often also used when state law is unclear about whether an institution can offer an account to a minor.

And the third are trust or custodial or other administrative accounts held by a school or

non-profit partner. So in some cases schools really took a leadership role and were -- actually had the account and were at the bank and were essentially the students' banker. Other times a non-profit or community foundation wanted to facilitate a community-wide college savings program and open a custodial account at the bank.

I want to just mention in February of 2015 the banking agencies issued guidance to encourage financial institution youth savings programs and answer related frequently asked questions. And it's really complemented by a tool the Conference of State Bank Supervisors released last year, which helps banks identify state laws pertaining to youth banking programs. So for example, you can see if your state has a law specifically allowing minors to open accounts. Your state may have a state bank at school program, for example. You can find a link to that from the web site I'll talk about in a minute.

Second, I want to talk about financial education. Banks found it was important to

emphasize financial education to students' lives such as by, for example, saving for prom. In addition to peer-based financial education that Janet just talked about, banks found value in working with teachers to make lessons relevant. And banks did not always teach financial education in a formal way. It was not always classroom-delivered. Sometimes banks viewed themselves as providing financial education during the life cycle of an account, one on one by the banker providing -- or the student, peer-based student providing education to their colleagues.

As an example, one bank in our pilot in Tennessee partnered with a school district in Kentucky and all the elementary schools in that district, students in them had an opportunity to open a savings account. The teachers picked the lessons from Money Smart and then the bank came in to teach the lessons from Money Smart.

So moving forward we saw during the pilot that banks valued learning from one another. Banks in one part of the country valued talking to

banks in another part of the country about how they were engaging students and parents. And we saw there being value in us supporting those conversations.

So we're now welcoming banks, FDIC-supervised institutions, that want to carry out a program to combine financial education with the opportunity for children to open a savings account to express interest in joining what we're calling the Youth Banking Network.

The FDIC's Youth Banking Network is an opportunity for us to facilitate conversations and dialogue bank to bank on how to promote youth savings and we want to get ideas on what we can do to build our financial education resources to be more useful for school banks and other youth-based financial education programs.

For example, during the pilot we heard one of the challenges is getting parents involved and getting permission forms returned from parents. We have parent caregiver guides in Money Smart, but we know we can do a little more work to

make those more complementary for youth banking programs.

So you can go onto our web site, fdic.gov/youthsavings, and find our new Youth Banking Resource Center. There you can find information about the Youth Banking Network. You can view the report that Marc just showed. You can view a road map in which we provide sort of a -- essentially a road map for the launch of a new program. And you can view complementary resources from FDIC and other agencies and other organizations. Again, that's fdic.gov/youth savings.

I'll turn it back to Janet.

MS. GORDON: Great. So you can see that we've formed this network, and certainly all the existing Youth Savings Pilot banks and some of the ones that were runners up are going to be invited to join the club, but it's open for anyone who's really interested in this topic. And we'd love to hear from you about how we might promote it, how you'd like to get involved, any other

suggestions you have. We're really looking to expand the reach of this report. And we'll even go out and talk to people individual in their communities to some extent. We're really looking to make sure that the success as we've seen in other communities are available to all.

MR. PEARCE: Yes, and I just want to sort of add on, having participated in the Youth Savings Symposium that we had last fall I was really struck by three things: One is just how hard -- I mean, obviously schools are under tremendous pressure, and finding opportunities to get involved in a school to just teach financial education is -- in and of itself could be challenging for an institution to figure out how to navigate that, but to be able to not only deliver the financial education, but also offering savings account opportunities. Putting those together really does take a champion both of the bank and at the school. It could be the administrator, it could be the principal, it could be a teacher, but you need a champion inside. So that was number

one.

Number two, it was really interesting to see how much the banks that are involved in the pilot wanted to talk to each other and how their enthusiasm to share their stories of how they were approaching the challenges and opportunities differently -- there was a lot of learning amongst the pilot participants. And as Janet mentioned earlier in her comments, we hadn't planning on having a Youth Savings Symposium, but they basically demanded it of us, that we wanted to get together and have an opportunity to talk with each other and their school partners to figure out what's really working and how we can learn from each other. And so that really was the genesis for our Youth Banking Network.

And then the last, which for me is -- I sort of saw this, and there's a little bit of research that says if you compare the education with the account opening, it really kind of builds on both components are greater than each individually. And so it informs better

relationship long term with an institution, a more favorable view of banks, better savings behavior.

But the thing that I was really struck by is how it changed some of the lives of the kids, that they got to participate in managing branches and thinking of this as a potential career path to go into, which I know is something we talked about here as to train future bankers, but that's sort of the impact it had on the kids and their lives, even far beyond financial education. It was really remarkable.

So some maybe additional thoughts. How do you think we can take this further?

MEMBER HANRAHAN: Mark, it's cool to bring this -- I'm sure there's lots of good intrinsic reasons the banks will want to do this, but in response to Janet's question about how to promote it, as I flipped through here as you were speaking, I see that you touch on CRA credit to the extent that children and LMIs are being educated. Can you elaborate on how a bank would have to document the delivery to a certain audience in

order to have a firm hook for CRA service credit?

MS. GORDON: Sure. And some of this is in the Q&As, but in a word you have to probably select a school with a majority if students on reduced lunch. And that is the simplest. That's not the only, but it's the simplest. The other ways would be to get other information from the school or a sort of letter from the school, or even to go to neighborhood schools that are in overwhelming low and moderate-income places. But you'd be surprised how many communities have really the majority of students on reduced lunch. And that really gives a relatively straightforward approach to this.

And the -- to take off on what Mark just said, the students who actually shone as bankers were not always the best students. And so we emphasize giving a wide range of students the opportunity to do something very hands-on, very tactile, very engaging that the academically best student may not benefit as much from in some ways.

MEMBER BUSSE: I want to thank you for

the report. I read this on the airplane.

(Laughter.)

MS. GORDON: How fabulous.

MEMBER BUSSE: And I thought it was fabulous. And it's a tremendous success in many ways and especially -- so congratulations. I just thought it was outstanding. It was well-written, too. Thank you very much for that.

One thing I noticed in this was I'm pretty sure you talked about the mobile banking, high school students and all of that. I'll just anecdotally share with you that when we talked to schools; and we do financial education, we even had some resistance on financial education because the teachers don't have the time or the ability to create curriculum. So we worked -- and you mentioned this in the report about working with non-profits. That was our plan, by the way. And so then you have to have a champion. We had to find a champion.

I mean, all the things you highlight here are the keys. But what we didn't do is what

you've done here, and that is create a catalyst for folks. But I think based on your report, as I read it, this is something we're very interested in doing now. I can see the collaboration that took place. You don't have to make the same mistakes anymore.

(Laughter.)

MEMBER BUSSE: You can go out there and do this and work with people who've done it successfully and maybe work your way around all the objections you had before and -- so thank you for that.

Mobile banking at high schools, was that the catalyst or an entryway, or how did -- did that help you in any way in growing the program or --

MR. REYNOLDS: So a couple banks offer mobile accounts. They reported it helped retain students after they graduated from high school. They also reported students appreciate having some of the options, so it helped them -- you could say help them sell accounts, help them sell and retain accounts.

MEMBER BUSSE: And high school, too, for their application --

(Laughter.)

MS. GORDON: Right. Right, I can see the different kind of branch that might entail.

MEMBER BUSSE: Thank you for that. And then if you're going to start up and you want to start up a program like this, after reading the report you had some suggestions about where, but is there one thing that you would point to that's the most helpful in having somebody internally that's the champion in your bank work with somebody in the organization? Is there somebody you would recommend they talk to?

MS. GORDON: I think it's important for them to talk to somebody they know probably first. That was really a very common approach. But the more senior the leadership, the better. I mean, even though one teacher can be a champion, it is better to start with the principal or even at the superintendent or county-wide basis. Some of these banks grew from one school across the entire

system, but others have sort of made it a system-wide approach. And hopefully this tool allows people to walk into an institution more easily. And there's a 20-page version we have, the sort of much reduced version that we envision as a handout, really, walking into a school saying we want to do something that looks like this and we want somebody to really commit to working with us, and then get it down on paper eventually. But it does take a lot of discussion. There's this hesitancy to maybe be favorites and how to navigate that is talked about.

MEMBER BUSSE: Thank you.

MEMBER HARTINGS: Just a specific question on a non-custodial account. Do you know how to handle the CIP?

MR. REYNOLDS: So the Youth Savings Guidance answers the question. So for CIP purposes it's the bank's customer. And if a bank is offering an account to a minor, then the minor is the bank's customer. And the Youth Savings Guidance gives an example -- reminds us that CIP

is a risk-based rule and gives examples of documentary and non-documentary methods.

MEMBER HARTINGS: So you may have to go back into your CIP policy and maybe amend it to make sure that the youth accounts are covered underneath that, because many of us have more stringent ID requirements.

MR. PEARCE: And one of the other things just to note is obviously the age in which you can open a non-custodial account is a state law. And we worked with the Conference of State Bank Supervisors that actually -- each of the states put forward information regarding the requirements for their state. And so they've issued that. And we have that information available as well so that you can be able to tailor it to the state that you're operating in.

MS. GORDON: And many banks tailored the account to the kinds of students they were seeing. I mean, they started out with one version and they saw what people really needed in the school. And they realized that non-custodial was

important. These children had their own money. In some cases they were responsible for something like child support. So you can get quite complex. They did not want having their custodial account. They were already essentially independent. So there's a lot of variability, obviously very different for different grade levels, different locations.

MEMBER BEARD: How do the mechanics work when -- you said that an actual branch. they lease space from the school and then -- how does that work?

MR. REYNOLDS: In some cases, yes, a bank would enter into an agreement, an MOU or other agreement with the school and essentially lease space in the bank or branch.

MEMBER BEARD: And have a full-time person that staffs that during the school?

MR. REYNOLDS: Full or part-time. And then range -- so some are actually really -- during the school week there's always a bank employee there. Others may just be open certain times of

the week. So I think kind of the lesson learned is the wide range of variability that banks have used and had success with in engaging young people and their families.

MEMBER BEARD: You kind of touched on the favoritism idea. It seems like at some point if this catches on you're going to have more banks wanting to do it in schools. Is that -- I mean --

MS. GORDON: Haven't reached that yet.

(Laughter.)

MR. REYNOLDS: It would be a nice problem to have.

MS. GORDON: That would be okay. But I think that it's reassuring the school that the bank is not using this really as a commercial venture.

MEMBER BEARD: Yes.

MS. GORDON: You're not going to heavy sell these kids or their parents.

(Laughter.)

MS. GORDON: And that they're -- you'll be respectful of the primary educational purpose.

And I think that's important to schools.

MR. REYNOLDS: And there's opportunity for collaboration. Like there's one school district where there's a small handful of banks that are working together to provide savings opportunities to students in that district, so different banks have different schools.

MS. GORDON: And then there is the trust account approach where the school is the trustee that also has a different relationship. So that's a whole -- that was used in places where the school really wanted to have more control.

So there are all these options that really allow flexibility as people negotiate. And usually, like many things, there is no one-size-fits-all.

MEMBER BUSSE: That's where they had to close out all the accounts, generally.

MS. GORDON: Yes, yes. So that's the -- transition is always an issue, and obviously the mobile banking was one solution to that.

CHAIRMAN GRUENBERG: Yes, if I can ask,

for a bank that's interested in initiating a project like this, in addition to the materials we have online, do we have people either here in Washington or in the regions that a banker could call if they want assistance or advice how to set up a project like this? If I want to talk to another bank that has done it?

MS. GORDON: Absolutely. We can match make. We've even been talking about having many seminars where the bankers that have done it talk to new groups of bankers. So, yes, there's a contact us online. I mean, hit this button and send us an email. But we may in fact put you in touch with another bank or we may put you in touch with our regional teams since we have people in the regions working on this and fully involved who might convene something locally. So we're looking at all kinds of options. Any suggestions are welcome.

MR. PEARCE: Thank you.

MS. RYAN: Okay. Thanks, Mark, Janet and Luke. Okay. That does it for our regular

agenda.

CHAIRMAN GRUENBERG: Well, listen, thank you all. Each of these meetings I must say is a learning experience for me. I will count this meeting in that list.

And I know you all don't feel like it's an inflection point, but I got to tell you we're going to be paying close attention. I think we have a change in interest rate environment. We are now into the seventh year of a recovery period. It seems to me that this the stage in the cycle where, as examiners, we want to pay close attention and work closely with our institutions because we don't know when the shifting in the cycle is going to occur, but we do know it will occur. And seems to me this is an important time for us to be paying close attention.

And in my conversations with you all and the comments you made in terms of underwriting and -- seems to me we value among other things for us to stay in close touch with you and to continue our engagement, that this committee has quite a bit

of value to us. So thank you all and we'll see you the next time.

(Whereupon, the above-entitled matter went off the record at 2:38 p.m.)