# The Meeting of the Advisory Committee on Community Banking

of the

Federal Deposit Insurance Corporation

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation via Webcast

April 13, 2021 - 1:00 P.M.

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

Committee members present at the meeting: Shaza Andersen, CEO, Trustar Bank, Great Falls, Virginia; Mike Bock, CEO, Dairy State Bank, Rice Lake, Wisconsin; Sarah Getzlaff, CEO, Security First Bank of North Dakota, New Salem, North Dakota; Stephen Hayes, Chairman and President, Dakota Prairie Bank, Ft. Pierre, South Dakota; Harold Horvat, President, CEO, and Chairman, Centreville Bank, West Warwick, Rhode Island; Betsy Johnson, President and CEO, Solutions Bank, Forreston, Illinois; Kenneth Kelly, Chairman and CEO, First Independence Bank, Detroit, Michigan; Cynthia A. Kitner, President and CEO, Jefferson Security Bank, Shepherdstown, West Virginia; Bruce Lowry, President and CEO, Ireland Bank, Malad City, Idaho; Neil McCurry, Jr., President and CEO, Sabal Palm Bank, Sarasota, Florida; Teri Messerschmitt, President and CEO, South Ottumwa Savings Bank, Ottumwa, Iowa; Patty Mongold, Chairperson, President, and CEO, Mt. McKinley Bank, Fairbanks, Alaska; Gilbert Narvaez, Jr., President and CEO, Falcon International Bank, Laredo, Texas; Margaret Oldner, CEO, Stone Bank, Mountain View, Arkansas; Mark Pitkin, President and CEO, Sugar River Bank, Newport, New Hampshire; Andrew West, President and CEO, Eagle Bank, Polson, Montana; and John Wharton, President and CEO, Yampa Valley Bank, Steamboat Springs, Colorado. All members attended via videoconference.

Director Martin J. Gruenberg attended the meeting. Corporation staff in attendance: John M. Anderlik, James L. Anderson, Bobby R. Bean, Sylvia W. Burns, Mary Calkins, Glenn E. Cobb, John P. Conneely, Kymberly K. Copa, Debra A. Decker, Paola L. Diaz, Doreen R. Eberley, Diane Ellis, Kristie K. Elmquist, G. Chris Finnegan, Jasa J. Gitomer, Ledina Gocaj, Shannon N. Greco, Patricia S. Gurneau, Martin D. Henning, Christine Hsu, Frank R. Hughes, Arleas Upton Kea, M. Anthony Lowe, Christopher Lucas, Sultan Meghji, Brandon Milhorn, Jonathan N. Miller, Rae-Ann Miller, Arthur J. Murton, Shayna Olesiuk, Elizabeth Ortiz, M. Rowie Pangilinan, Eric Parker, Mark E. Pearce, Nikita Pearson, Harrel M. Pettway, Nicholas J. Podsiadly, D. Evelyn Rainey, Ariana L. Rambuyan, Ryan M. Rappa, Lisa K. Roy, Betty J. Rudolph, Ryan C. Senegal, Michael Shaheen, James P. Sheesley, Maureen E. Sweeney, Mona Thomas, John F. Vogel, and Katrice L. Yokley.

Chairman Jelena McWilliams opened and presided at the meeting. Arleas Upton Kea, Deputy to the Chairman for External Affairs and the Committee’s Designated Federal Officer, moderated the proceedings.

**Introductory Remarks**

Chairman McWilliams welcomed members to the Committee’s first meeting of 2021 and thanked them for making time to participate. She noted much had happened since the Committee last met in October 2020. She briefly commented on the FDIC’s focus on core safety and soundness principles and its COVID response. She noted that bank regulators issued many rulemakings in 2020 to ensure banks had the flexibility to support the economy and their communities. While optimistic about the economic outlook, she said the FDIC will continue to monitor economic conditions and the state of the banking industry.

She also noted the agency's efforts to promote innovation, including the hiring of Sultan Meghji as Chief Innovation Officer, the FDIC's rapid prototyping competition, and the proposed development of a standard setting body to aid in vendor due diligence. She further discussed efforts related to financial inclusion and American competitiveness.

She welcomed the following Committee members to their first meeting: Mike Bock, Harold Horvat, Betsy Johnson, Cindy Kitner, Bruce Lowry, Neil McCurry, Margaret Oldner, Andrew West, and John Wharton. She then introduced Ms. Kea as the moderator.

Ms. Kea invited opening comments from Director Gruenberg, who welcomed the members and thanked them for their participation. He recalled fearing a year ago that the pandemic's aftermath would be even more devastating than it turned out. He noted that community banks came through in remarkably good shape and served their communities well. While recognizing good reason for hopefulness, he acknowledged significant remaining uncertainty and downside risk to the financial system, most obviously relating to commercial real estate (CRE). He looked forward to hearing from the Committee members regarding their local communities and markets.

**Community Banking Conditions**

Ms. Kea then introduced a roundtable discussion of community banking conditions. The Committee members discussed a range of trends and issues related to their local banking environments and conditions, including the following:

**COVID-19 Pandemic and Response.** All of the members discussed the continuing impact of the COVID-19 pandemic on their communities and banking operations, as well as their experiences implementing economic stimulus in response to the pandemic. Members provided updates on the rates of infection, hospitalizations, and deaths in their communities, reporting improvement in these metrics. Many provided details on the local vaccination efforts, including general information about the vaccinations of their own workforces. Members also described current public health measures such as mask mandates and closures of schools and businesses, with a general trend toward reopening. This included many member reports of loosened restrictions and return to in-office work at their institutions. However, the reported experiences varied, with some members reporting full reopening and others describing continued lobby closures and reliance on virtual meetings to conduct some business. Member Andersen's comment that, "there is positive momentum in this country in fighting COVID, and in our economic rebound," was a common sentiment expressed by various members.

All members touched on community banks' role in supporting businesses and individuals through the pandemic. Member Getzlaff noted that, "COVID proved more than ever that our banking system works really well and community banks are especially strong." She continued by stating that "they meet all the needs of our main streets and our communities." On this point, all but one member described their experiences with the Paycheck Protection Program (PPP). Members provided statistics on their loan originations in each stage of the program, with Members Lowry, Oldner, and Hayes noting recent extensions of such loans to farmers and ranchers. Member Horvat said that the PPP program offered community banks an opportunity to differentiate themselves from the larger competition. Member Wharton also identified PPP as an opportunity for community banks to shine compared to the mega banks. Member McCurry described his pride in his institution's efforts to educate the community on how to access PPP loans. It was evident that service opportunities extended beyond loan origination, with members discussing the loan forgiveness process and institutions' efforts to assist customers in navigating the process. Member Narvaez commented on recent improvements in the process by the Small Business Administration.

Member Kelly noted that there was still opportunity for improvement with the PPP. He described indications from the National Bankers Association, Urban League, and NAACP that the PPP did not reach deeply into some communities. He called on bankers to take a leadership role in addressing the challenges that led to such disparities and noted the FDIC's Mission Driven Bank Fund as a measure intended to increase this reach.

**Economic Conditions.** Members reported improved economic conditions, especially compared to the challenging period at the outset of the pandemic. Several members noted improved employment statistics, though a few noted that employment had not recovered to pre-pandemic levels. Members Bock and Johnson noted uneven employment conditions in different regions within their states. Many members reported robust housing markets, with heightened single-family home sale prices and increased volumes. Some described housing shortages and affordability challenges, especially in states experiencing population growth that some members attributed to COVID-19 pandemic-driven shifts.

Member West observed some improvement in the hospitality industry in his state, following help by the PPP and forbearance agreements earlier in the pandemic. Member Bock noted that, within the sector, bars and restaurants were able to rebound, but hotels continued to struggle. Other members expressed concern regarding this sector, as well as hopes for improvement with the summer tourism season. Members described monitoring risk in other CRE sectors. Member Andersen said office vacancies remain high, but she also noted that transaction prices have been high, too. Member Mongold described her CRE risk management efforts but noted low delinquencies in that portfolio.

Members from institutions with significant agriculture portfolios reported generally positive conditions. Member Messerschmitt said that both crop prices and land values were high. Member Hayes made similar observations regarding commodity prices, as did Member Johnson regarding land. Members West and Getzlaff expressed concern regarding drought conditions in their states. Most of the members who spoke about agriculture conditions mentioned the importance of government support to the sector’s outlook.

**Banking Conditions.** Members reported healthy banking conditions despite the challenges posed by the COVID-19 pandemic. According to their reports, the increase in assets and deposits experienced earlier in the pandemic has continued. Some members reported continued asset growth, though Member Bock said his institution’s loan growth was flat outside of PPP loans. Member Wharton reported that his institution had budgeted for a balance sheet reduction in 2021, but is now focusing on growth management. Members noted competition in origination of new loans, both in rates and conditions, and from banks as well as nonbank lenders such as insurance companies. Most members reported strong asset quality and low delinquencies, though some reported upticks in non-performing loans and increased loan loss provisions to address uncertainty. Members noted that pandemic-related modifications and deferrals have diminished or disappeared.

Members described the impact of asset and deposit growth on capital and earnings. No members described difficulties in maintaining adequate capitalization. Member Pitkin noted that his bank, as a mutual, was well poised to manage the substantial asset growth. Member Wharton expressed his gratitude for the modifications to the community bank leverage ratio (CBLR) in the context of managing the capital impacts of the additional liquidity associated with the stimulus efforts. Both he and Member Hayes suggested reconsideration of the scheduled graduated transitions to the required ratio in the 2019 final rule given the continuing pressure generated by the stimulus funding. Regarding earnings, members indicated that in many cases significant fee income from PPP and residential mortgage activity helped offset challenges from compressed net interest margins and strong competition in loan origination.

**Examinations.** Four members discussed recent examination experience. Member Johnson mentioned the utility of FDIC*connect* in facilitating a recent state examination. Members Messerschmitt and Hayes detailed their recent virtual examination experiences, with Member Hayes expressing a desire to return to at least partial onsite examinations. Member Kitner described her appreciation for the FDIC's risk-based examination approach in both compliance and safety and soundness exams, as well as her institution's involvement with FDIC training teams.

**Innovation and Technology.** Several members discussed impacts and expectations regarding technological innovation in community banking. Member Pitkin identified the need to meet the "technological expectations of consumers" as a challenge. Member Oldner also identified this as a challenge accelerated by the pandemic. She said another challenge is vetting service providers and expressed a desire for regulatory support for combining efforts to complete due diligence on these entities. Member Johnson explained that her institution relied on two FinTechs to originate PPP loans given that her institution was not a Small Business Administration lender. Members McCurry, Oldner, and Pitkin mentioned cybersecurity threats as management challenges, with a reference to the recent SolarWinds, Finastra, and Microsoft incidents.

**Other Topics**. Member Kelly noted interest in minority banking and referenced Wells Fargo's $50 million investment in minority depository institutions (MDIs). Members Johnson and Messerschmitt discussed merger activity involving their institutions, with Member Johnson relating brokers' comments that activity will increase due to a COVID-driven backlog. Member Kitner commented on a local university's participation in the FDIC's Academic Challenge. She also called for regulatory guidance on banking cannabis businesses given increasing state-level legalization, noting that full resolution may require Congressional action. Members Getzlaff and Johnson discussed state-owned banks, with Member Johnson expressing opposition to such an institution in her state and Member Getzlaff explaining that her state might not need one if it had a bankers' bank. Members Getzlaff and Oldner also expressed opposition to special charters.

Following the committee member roundtable, Ms. Kea introduced FDIC staff members to discuss national and regional observations. Shayna Olesiuk, Associate Director, National and Regional Risk Analysis, Division of Insurance and Research (DIR), presented on the national economy and banking trends. Then Frank Hughes, Regional Director, New York Region, and Kristie Elmquist, Regional Director, Dallas Region, presented regional perspectives.

Following this discussion, Ms. Kea announced the Committee would briefly recess. Accordingly, the meeting stood in recess at 3:10 p.m.

**Update from the Minority Depository Institutions Subcommittee**

The Committee reconvened at 3:20 p.m. Ms. Kea introduced Member Narvaez and Ms. Rudolph, National Director, Minority and

Community Development Banking, to present an update on the MDI Subcommittee, which met on April 12.

**FDIC Tech Lab Update**

Ms. Kea next introduced Sultan Meghji, FDIC Chief Innovation Officer, who provided an update on the FDIC's Office of Innovation (FDiTech).

Following the presentation, Member Andersen asked how the recent decision by the Office of the Comptroller of the Currency to approve the first FinTech for a national banking charter would affect community banks, the FDIC, and banking in general, in light of the proliferation of FinTechs. Specifically, she asked Mr. Meghji's thoughts on a bank charter for a company without FDIC insurance.

Mr. Meghji said he admires innovation in the banking sector. He noted that the FDIC is seeing tremendous innovation in FDIC-insured institutions, including innovation on their own as well as in collaboration with other banks and FinTechs.

Member Pitkin praised regulators' openness toward banks working with FinTechs. He contrasted this openness to his experience years ago when his community bank partnered with the largest unsecured lender in the nation. He then asked how the FDIC is conveying its openness and transparency for innovation to examiners.

Mr. Meghji indicated that some of the most interesting innovations he has seen did not come from the biggest banks, but from community banks. He asked for patience as the FDIC communicates information to its approximately 6,000 employees nationwide.

Member McCurry observed how cyberattacks have evolved from individual hackers to state-sponsored efforts and asked how banks can innovate and embrace technology given the need to partner with other organizations and grant access to the banks' systems. He also asked how to collaborate to ensure banks' systems are safe and perceived safe by customers.

Mr. Meghji agreed that banks and regulators need to act as a community to combat cyberattacks. He compared cybersecurity to innovation in that neither is primarily about technology, but combines people and processing with technology. He noted that banks need to extend their risk management programs to include training and communication about cybersecurity as well as process evaluations. He referenced the FinCyber Program at the Carnegie Endowment for International Peace, which addresses how to secure the global financial system and created a toolkit that included a communications and education program.

Mr. Meghji further discussed resilience, the SolarWinds and Microsoft hacks, as well as ransomware technologies and service. He agreed cybersecurity is probably the greatest threat to our banking system.

Member McCurry then recommended that the FDIC consider forming a subcommittee akin to the MDI Subcommittee, allowing bankers across the country to work together on cybersecurity issues.

Member Hayes asked about overcoming smaller banks' resistance to technology innovation and whether education plays a role. Mr. Meghji cited people, processing, and technology as the key components. Recognizing that for many smaller banks, technology expense is second only to annual interest expense, Mr. Meghji recommended investing in people, by ensuring they hear about things like the FinCyber Program and receive continuing education. Second, he recommended evaluating processes, using resources from other institutions, trade associations, and other agencies and organizations. Third, he suggested that banks consider their strategy as they evaluate technology solutions.

Member Wharton asked whether Mr. Meghji has interacted with the Independent Community Bankers of America (ICBA), recalling the first business day in January, when the core technology provider for many of its members went down. He said that incident inspired his participation in the ICBA ThinkTECH Accelerator Program, where bankers hear pitches from multiple providers. He encouraged interaction between the FDIC and the ICBA on that program.

Mr. Meghji confirmed that he recently spoke at an ICBA event, and agreed that many "amazing" resources exist, including trade associations.

Concluding that session, Ms. Kea provided FDiTech's email address, innovation@fdic.gov.

**Supervision Update**

Next, Ms. Kea introduced a panel of RMS representatives to provide updates on supervisory matters. Doreen Eberley, Director, RMS, outlined the topics to be discussed.

Next, Ms. Eberley provided an overview of the FDIC supervisory response to the pandemic, then John Vogel, Deputy Director for Operations and Chief of Staff, RMS, discussed the FDIC's conversion to offsite supervision during the pandemic.

Then Rae-Ann Miller, Senior Deputy Director, Supervisory Examinations, RMS, described recent changes to the brokered deposit regulations and interest rate restrictions.

Christopher Finnegan, Acting Senior Deputy Director of Compliance and CRA Examinations, Division of Depositor and Consumer Protection, concluded the panel presentation with insights regarding a pilot program relating to consumer compliance reports of examination, particularly for low-risk institutions.

At the conclusion of the supervisory update, Ms. Eberley asked Bobby Bean, Deputy Director, Capital Markets and Accounting, RMS, to address comments members had raised about the CBLR during the roundtable discussion.

Mr. Bean first discussed how the FDIC and other agencies are thinking about CBLR, particularly in light of large deposit growth and lending increases under the PPP, which led to significant balance sheet growth at community banks, posing a potential challenge to comply with the CBLR requirement as it transitions back to 9 percent.

He said the FDIC and other federal banking agencies will continue to actively monitor banking conditions, including assessing balance sheet dynamics, reserve levels, and the potential strain on community banking organizations. He noted that the agencies want to ensure the CBLR framework reduces regulatory burden for qualifying community banks, in a manner that is consistent with safety and soundness principles and the goal of providing credit to households and businesses over a range of economic conditions.

In response to a question from Member Hayes, Mr. Bean confirmed that the CBLR is in the process of transitioning back to 9 percent.

With regard to the regulation on brokered deposits, Member Lowry asked whether the FDIC plans to further address the disparity between the high proportion of deposits held by national banks (approximately 80 percent) versus the relatively small portion held by community banks (approximately 20 percent), and the disparity of rates. He expressed appreciation for changes that had already been made, with hope that future changes might go further, with more opportunities for banks to provide input.

Ms. Miller noted that the law requires a market rate and that larger institutions control more of the market. She explained that the FDIC made some changes to the regulation based on comments received, including the addition of credit unions to the calculation. She further explained that the national rate is just one piece of the puzzle, and since the rate cap becomes effective when institutions become less than well-capitalized, the FDIC created additional flexibility within the rate cap, allowing the higher of the national rate plus 75 basis points, or a comparable Treasury rate plus 75 basis points. Ms. Miller described that as a robust way for less than well-capitalized institutions to compete, within the law, while subject to restriction. She added that a much more flexible local rate cap exists for institutions that wish to compete locally with specials, different types of maturities, etc.

Member Lowry expressed a concern based on his view that the definition of well-capitalized is subjective, since an institution can meet the statutory numbers and still be deemed less than well-capitalized.

Ms. Miller explained that the definition of well-capitalized is not subjective, as the capital ratios are defined by regulation. Acknowledging the text of the Prompt Corrective Action (PCA) thresholds with respect to enforcement actions, she said capitalization is not a subjective calculation. She added that experiences of subjectivity with respect to capital calculations and deposits are not appropriate and should be brought to the FDIC's attention.

Next, Member Horvat praised the guidance issued at the outset of the pandemic, and he asked whether additional guidance with regard to asset quality will be issued as we are a year or more into the pandemic. He also sought insight into how examinations are currently handled with regard to asset quality, in light of financial statements from last year showing reduced income and companies not meeting their financial covenants.

Ms. Eberley said the FDIC is not seeing significant asset quality deterioration, though there is some, along with some downgrades in internal ratings, indicating institutions themselves are recognizing increased risk among some borrowers for some of the situations cited. She said the level of that migration is not meaningful nor is it anything that is leading to significant changes in composite ratings. Ms. Eberley emphasized the importance of recognizing that if a loan will not be repaid in part or in full, it should be placed on non-accrual regardless of whether it is called a troubled debt restructuring. She noted that institutions may need to take a partial charge-off or rework the note. She said examiners are hearing such banker conversations now. She noted that the federal banking agencies are interested in updating interagency guidance on CRE workouts.

Ms. Miller pointed out that while the FDIC issues guidance to institutions, it also trains examiners, uses scenario analysis, and gives examiners instructions that are publicly available. Institutions can access the information and read about how examiners look at risk management and risk assessment. For example, she said even where loans might meet the definition of substandard or worse, examiners will recognize where longer-term improvements might be possible even though near-term improvements may not be. As long as bank management is working to improve the situation, she emphasized, both the bank and borrower benefit. She added that banks went into the crisis with fairly strong risk management frameworks, healthy levels of capital, and strong earnings, all of which served the system well when the pandemic hit.

Next, Member Pitkin asked about "Fed Accounts" (Federal Reserve Bank accounts for individuals, as proposed by some public policy writers). He noted that local community banks work hard to provide accounts to everyone in their communities and to obtain and retain those local deposits. He also observed that many community banks are located next to post offices, which might offer access to such Fed Accounts. He asked how the FDIC sees Fed Accounts affecting community banks going forward.

Ms. Eberley responded that the competitive landscape is constantly changing for community banks, with a new competitor always around the corner. She noted that community banks' competitive strength is their focus on local consumers and the wide range of services they provide in addition to deposit accounts, such as loans and other products and services based on relationships with the bank.

Mark Pearce, Director of the Division of Depositor and Consumer Protection, then added that the FDIC has been working hard to enhance customers' awareness of their options, including the benefits of accounts at insured institutions, as evidenced by the "Get Banked" initiative launched earlier in the month with a consumer-facing website. Noting that many banks offer low-cost accounts without some of the fees that affect people living paycheck to paycheck. He said now is the best time for consumers to consider their options, given federal benefits, economic impact payments, and other factors directed toward consumers. A bank account linked to Internal Revenue Service information allows direct deposit, he explained, with funds accessible much faster than by mail.

**Division of Insurance and Research Update: FDIC Community Banking Study and Agricultural Lending**

Ms. Kea then introduced John Anderlik, Assistant Director, National and Regional Risk Analysis, DIR, who presented on the FDIC's Community Bank Study published in December 2020 and the recent *FDIC Quarterly* article, "Farm Banks: Resilience Through Changing Conditions."

**Closing Remarks**

Ms. Kea invited closing comments from Director Gruenberg, who thanked the Committee members for their participation and noted that the Committee has existed for quite a while and proven itself a valuable asset to the FDIC and its supervision of community banks.

Chairman McWilliams closed the meeting by thanking the Committee members and presenters for their valuable time and feedback. Then she specifically thanked two people whose terms on the Committee ended the prior month: Dick Beshear, Chairman of the Board of First Security Bank and Trust Company in Oklahoma City, Oklahoma; and Cathy Stuchlik, Chairwoman and President of Clackamas County Bank in Sandy, Oregon.

Having no further business to discuss, the meeting adjourned at 5:10 p.m.

______________________________

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

April 13, 2021

Minutes

of the

Meeting of the FDIC Advisory Committee on Community Banking

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation Via Webcast

April 13, 2021 – 1:00 P.M.

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

__________________________________

Jelena McWilliams
Chairman
Board of Directors
Federal Deposit Insurance Corporation