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

November 3, 2021 – 1:00 P.M.

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

Committee members present at the meeting: Shaza Andersen, Chief Executive Officer (CEO), Trustar Bank, Great Falls, Virginia; Mike Bock, CEO, Dairy State Bank, Rice Lake, Wisconsin; Anthony Capobianco, President and CEO, American Community Bank, Glen Cove, New York; Sarah Getzlaff, CEO, Security First Bank of North Dakota, New Salem, North Dakota; Stephen Hayes, Chairman and President, Dakota Prairie Bank, Fort 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; Patty Mongold, Chairperson, President, and CEO, Mt. McKinley Bank, Fairbanks, Alaska; Gilbert Narvaez, Jr., President and CEO, Falcon International Bank, Laredo, Texas; Mark Pitkin, President and CEO, Sugar River Bank, Newport, New Hampshire; Andrew West, President and CEO, Eagle Bank, Polson, Montana; and John Wharton V, President and CEO, Yampa Valley Bank, Steamboat Springs, Colorado. All members attended via videoconference.

Committee members absent from the meeting: 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; and Margaret Oldner, CEO, Stone Bank, Mountain View, Arkansas.

Corporation staff in attendance: Rebecca L. Anseth, Jennifer M. Barozie, Amber B. Beck, Gregory P. Bottone, Sylvia W. Burns, Mary Calkins, Kymberly K. Copa, Diane Ellis, G. Chris Finnegan, Eric Fultze, Shannon N. Greco, Daniel R. Hammond, Martin D. Henning, John P. Henrie, Daniel S. Hoople, Arleas Upton Kea, M. Anthony Lowe, Sultan Meghji, Brandon Milhorn, Rae-Ann Miller, Arthur J. Murton, Shayna Olesiuk, Rowie M. Pangilinan, Mark E. Pearce, Nikita Pearson, Harrel M. Pettway, Nicholas J. Podsiadly, Ariana L. Rambuyan, Ryan M. Rappa, Carlos D. Rodriguez, Lisa K. Roy, Betty J. Rudolph, Michael Shaheen, James P. Sheesley, Nefretete A. Smith, Tiffanie A. Titus, John F. Vogel, and Katrice L. Yokley.

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

Introductory Remarks

Director Gruenberg welcomed Committee members and informed them that Chairman Jelena McWilliams was unable to participate due to a scheduling conflict. He noted that the Advisory Committee, which was established twelve years ago, has proven to be an invaluable resource for thoughtful and candid advice from a representative group of community bankers from around the country. Director Gruenberg also indicated that he believes the Committee’s input will be more important to the FDIC than ever given uncertainties associated with the final stages of the pandemic and future challenges facing community banking in the United States. He expressed his appreciation for the Committee members’ participation and time.

Director Gruenberg then acknowledged the forthcoming retirement of Ms. Kea, who serves as the Designated Federal Officer of the Committee and the FDIC Advisory Committee of State Regulators. He listed her prior positions, which include Deputy to the Chairman and Chief Operating Officer, Director of the FDIC’s Division of Administration, Ombudsman, and a series of senior positions in the Legal Division. He said Ms. Kea played a major leadership role at the FDIC over her 35 years of service and epitomizes the “can do” spirit of the FDIC.

Director Gruenberg underscored that Ms. Kea's contributions to the FDIC are historic. He noted that she has been a trailblazer for women of color to rise to senior positions of leadership at the FDIC and lead with courage and grace. He said her devotion to the FDIC, its mission, and its employees has been second to none, and she will leave a mark on the agency that will stand the test of time. He thanked Ms. Kea for her service and emphasized how much she will be missed.

Director Gruenberg then turned the program over to Ms. Kea, to moderate the meeting.

Ms. Kea thanked Director Gruenberg and said she felt blessed to have worked with him during his time as Chairman, in addition to ten other Chairmen of the FDIC. She recounted that she assisted in resolving two financial crises, and she is now working through the pandemic. She noted that working as a public servant in all her capacities has been a special opportunity.

Addressing the Committee members, Ms. Kea said interacting with them had been an absolute pleasure. Though she had not met all in person, she said she has felt their presence and bonded with them through the virtual meetings this year and last.

Ms. Kea emphasized that she will always have a great love for the FDIC and looks forward to what is yet to come.

Community Banking Conditions

Ms. Kea then turned the meeting over to the Committee members for a roundtable discussion on local banking trends and issues. The Committee members discussed a broad range of topics, including the following:

COVID-19 Pandemic and Response.

Most of the members discussed the continuing impact of the COVID-19 pandemic on their communities and banking operations. Members provided updates on the rates of infection and hospitalizations, as well as vaccinations. Several members reported improvements in such metrics, while other members noted that COVID-19 cases continue to remain high in their communities.

Members discussed varying levels of reopening for bank branches. Members Pitkin, Horvat, and Kitner noted that their banks' staff are on-site, while Member Andersen noted that her bank has remained open throughout the pandemic, but in a hybrid model. Member Johnson indicated that lobbies remain closed at her bank, but appointments can be made. Member West said that his bank's lobby reopened in June, but that closing the lobby for a year did not affect his bank's performance in 2020 or 2021.

Member West observed that customers have changed how they interface with his bank, using mobile banking and the drive-through. Member Capobianco noted an uptick in mobile banking customer enrollments and an increase in the number of deposits made through the mobile application. He indicated that once customers migrate to his bank's digital products, they continue to use them.

Economic Conditions.

Members discussed inflation, labor shortages, and supply chain challenges. Members Wharton and Bock indicated they do not believe inflation is transitory. Member Horvat expressed concern with wage inflation, because, unlike commodity prices that fluctuate, once wages increase, they tend to stay at the new, higher levels.

Member Mongold noted that high COVID-19 cases and exposures have contributed to labor shortages, as employees are required to stay home until they are healthy or a sufficient amount of time has elapsed after exposure. Member Bock stated that some of the bank's larger businesses indicated that a potential COVID-19 vaccine mandate may exacerbate the labor shortage.

Member Andersen noted issues with supplies and materials, acknowledging that it took four months to get glass for the window at a bank branch. Members Hayes and Johnson reported increasing input costs and supply chain issues for agricultural customers. Member West noted that hay has increased from $100 to $350 a ton, and as a result, ranchers are selling their herds.

Members discussed rising housing costs and shortages. Member Johnson indicated that in the residential market, supply still trails demand. Member Horvat observed that home prices continue to be very strong and inventory levels remain very low. He also noted that residential lending has been strong throughout the year, and refinancings make up almost all of their lending volume due to the aforementioned housing inventory shortages. Member West said real estate lending has begun to taper in his area due to fewer sales because of low inventory and a decreased demand for refinancing. Member Mongold indicated that labor shortages and supply chain issues have impacted housing construction. Member Wharton observed that the cost per square foot has increased from approximately $300 to $500, and in the past three years, construction costs have increased between 40 and 60 percent. Member Wharton also noted that bank employees commute significant distances due to a lack of affordable housing in the area.

Members reported varying levels of commercial lending activity. Member Horvat observed commercial real estate lending continues to be very strong with investors taking advantage of low interest rates. He also noted that there has been a considerable increase in construction projects during the year, with an increase in demand for high-bay industrial properties. Member Andersen noted that customers and businesses are turning their buildings into condominiums. Member West indicated commercial loan demand has been moderate compared to prior years. Member Bock indicated that commercial lending volumes have been impacted by declining inventory levels, which have reduced financing needs.

Regarding agriculture, members described varying results for harvests. Members Bock and Johnson observed strong yields and commodity prices. Member Hayes noted that yields are down primarily due to a drought, but commodity prices have been consistent. Member West reported that agriculture has been difficult across all of Montana due to a tremendous drought and a sizeable grasshopper hatch. Member Getzlaff explained that despite crop failings, her bank’s portfolio remains strong due to crop insurance, stimulus payments, farm payments, and Paycheck Protection Program (PPP) loans.

Some members described improvement in the hospitality industry. Member Mongold noted that the summer tourist season had far fewer visitors than pre-COVID years, but was better than 2020. Member Horvat shared that the summer tourism season was strong. However, he indicated that restaurants had to close for more hours than anticipated due to staffing shortages and, therefore, could not take advantage of strong customer demand. Similarly, Member Bock noted that the hospitality industry considerably improved; however, labor shortages are forcing businesses to close two or three days per week.

Banking Conditions.

Several members reported strong banking conditions in their institutions and local markets, but some expressed varying views on whether such conditions will continue into 2022. Members also discussed the effect of asset and deposit growth on capital and earnings.

Many members reported strong capital positions at their institutions, however, some members did report a decline in capital ratios due to asset growth. Most members reported a rise in deposits. Member Pitkin reported that some bankers are begrudgingly turning away large local community deposits to limit future capital erosion.

Members Pitkin, Kelly, Wharton, and Johnson discussed leverage ratios. Member Pitkin expressed concern about continued leverage ratio pressure, especially as it relates to regulatory thresholds. Member Wharton echoed Member Pitkin's sentiments concerning the community bank leverage ratio. Both members asked the FDIC to continue to closely review this matter. Member Kelly said that the regulatory agencies may want to look at how they can help banks that have more assets on their balance sheets as this may impact them negatively as it relates to equity. Member Johnson indicated that leverage ratios are a primary concern for every banker that she talks to.

Some members reported strong profitability, while other members expressed concerns regarding margin compression stemming in part from high liquidity levels and lower loan demand. Some members attributed lower loan demand to government payments and decreased inventory levels. Member West observed low demand for consumer loans due to stimulus payments provided by both the tribal government and the U.S. Government. Member Kelly noted challenges with loan growth in the minority market. Most members reported that delinquencies and deferrals remain low.

Members indicated that their banks’ PPP loans have mostly been forgiven or paid off. Member Capobianco expressed a desire to find new revenue sources to replace the fee income from PPP loans as such loans diminish. He also noted that proceeds from many PPP loans have not been used; therefore, the funds remain on deposit with the bank, which is contributing to excess liquidity. Member Johnson touched on audits regarding PPP loans.

Member Pitkin expressed concern about the increasing number of retiring workers with banking experience. Member Pitkin said that many community banks in New Hampshire are finding that remote working options are necessary to retain and attract employees and overcome staff shortages. However, his bank continues to embrace the importance of having staff on-site to allow for personal interactions with customers. Members Wharton and Capobianco discussed increasing wages at their banks. Member Kitner indicated that, as a small community bank, staying competitive and finding talent are becoming increasingly challenging.

Examinations.

Members Kelly, Hayes, Horvat, Johnson, and Mongold expressed a preference for a hybrid format for examinations. Member Mongold elaborated on her bank's virtual FDIC examinations this year. She noted that the examination team worked with her bank to reduce the number of uploaded documents. At the same time, Member Mongold stressed the importance of face-to-face meetings and the ease of providing additional information on loans or reports to on-site examiners as opposed to uploading information.

Innovation and Technology.

Members Capobianco and Kelly expressed concerns about cybersecurity. Member Kelly said there needs to be a more collaborative effort from the regulatory agencies regarding how banks deal with cybersecurity.

Member Pitkin discussed partnerships with Fintech firms, including for lending, as a response to low margins, intense lender competition, and fewer investment alternatives. Member Pitkin was encouraged by the direction that the FDIC is taking to embrace the prudent use of financial technology and innovation to enhance customer experience and to create a more diverse and equitable banking system. Member Kelly said that the banking industry and regulators should be thinking about cryptocurrency.

Other Topics.

Member Getzlaff expressed concern about the impact on smaller lenders of the Consumer Financial Protection Bureau's (CFPB's) proposal regarding small business lending data collection per Section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Member Getzlaff noted that since some communities have only one dentist, hair salon, or butcher, the proposed reporting requirements for small business loans might result in disclosure of the identities of borrowers. Member Getzlaff also noted that, as a result of such data collection, customers may avoid hometown banks and instead choose larger, out of area banks to maintain privacy. She hopes the FDIC will advocate on behalf of community banks so that the CFPB's proposed regulation establishes tiers based on bank size.

Following the Committee member roundtable discussion, 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 John Henrie, Regional Director, Atlanta Region, and Greg Bottone, Regional Director, Chicago Region, presented regional perspectives.

Following this discussion, Ms. Kea thanked the members and FDIC staff for their presentations. She then announced that the meeting would stand in recess. Accordingly, the meeting stood in recess at 3:10 p.m.

Update from the Minority Depository Institutions Subcommittee

The Committee reconvened at 3:25 p.m. Ms. Kea introduced Member Narvaez and Betty Rudolph, National Director, Minority and Community Development Banking, to present an update on the Minority Depository Institutions Subcommittee, which met on November 2, 2021. Ms. Kea pointed out that Ms. Rudolph is the new Director of the FDIC's recently created Minority and Community Development Banking Office.

FDITECH Update

Next, Ms. Kea introduced Sultan Meghji, Chief Innovation Officer, Office of Innovation, who provided an update on the FDIC's ongoing technology initiatives.

Community Bank Research

Ms. Kea then introduced Diane Ellis, Director, DIR, and Daniel Hoople, Financial Economist, DIR, to share an update on community bank research. Ms. Ellis provided an overview of the 2021 Community Bank Research Conference. Next, Mr. Hoople focused his presentation on how community banks' use of technology supported loan and deposit growth during the pandemic.

Information Technology Supervision Update

Ms. Kea then introduced Martin Henning, Deputy Director, Operational Risk, Division of Risk Management Supervision, to provide an update on information technology supervision.

Following the presentation, Member Pitkin indicated that the challenge as it related to technology is not necessarily banks themselves, but their customers, whose primary concern is the two-factor authentication process. He inquired about potential avenues for communicating with consumers regarding the importance of two-step authentication.

Mr. Henning asked Member Pitkin whether he senses any change in consumer reaction to authentication requirements. Member Pitkin indicated that initially, customers are resistant to setting up two-factor authentication; however, they seem less concerned once the process is complete. He emphasized that better communication with consumers is needed.

Mr. Henning noted that he has heard that over time the technologies for providing the second factor of authentication are becoming easier to use. Therefore, the problem may be improving across the industry. He stated that he appreciated Member Pitkin's feedback. Citing prior FDIC publications directed specifically to consumers, with many articles about information security and how consumers can protect themselves, Mr. Henning said the new FFIEC publication provides another opportunity to educate consumers on the importance of security.

Next, Member Kelly thanked Mr. Henning for his remarks and encouraged continuing the discussion. Member Kelly recalled his earlier characterization of cybersecurity as an arms race, which community banks will have to continue to deal with, more strongly as a collective body than as individual institutions.

Closing Remarks

Ms. Kea thanked all of her FDIC colleagues who presented, and expressed her deepest gratitude to the Committee members for their insights and open, honest sharing. Then Ms. Kea turned the meeting over to Director Gruenberg for his closing remarks.

Director Gruenberg thanked all Committee members for their participation, and he said their input and impact on the FDIC over the Committee's years of existence cannot be overstated.

He thanked Committee members whose terms expire at the end of the year, and for whom this is their last Committee meeting: Shaza Andersen, Sarah Getzlaff, Stephen Hayes, Kenneth Kelly, Patty Mongold, and Mark Pitkin. On behalf of everyone at the FDIC, Director Gruenberg thanked them for the time and effort they devoted to the Committee. He noted that the FDIC has benefitted greatly from their service and looks forward to continuing engagement with them as distinguished alumni of the Committee.

There being no further business to discuss, Director Gruenberg adjourned the meeting at 4:46 p.m.

(Whereupon, the above entitled matter went off the record at 4:46 p.m.)

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

Minutes

of the

Meeting of the FDIC Advisory Committee on Community Banking

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

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November 3, 2021 – 1:00 P.M.

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

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Jelena McWilliams
Chairman
Board of Directors
Federal Deposit Insurance Corporation