

FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON COMMUNITY BANKING

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MEETING

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TUESDAY,
JULY 28, 2020

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The Advisory Committee convened at 1:00 p.m. EDT via Video-Teleconference, Jelena McWilliams, Chairman, presiding.

PRESENT:

JELENA McWILLIAMS, Chairman, FDIC
 SHAZA ANDERSEN, CEO, Trustar Bank
 DICK BESHEAR, Chairman, President & CEO, First Security Bank & Trust Company
 FRED DeBIASI, President & COO, Valley Central Bank
 JAMES J. EDWARDS, JR., CEO, United Bank
 KEITH EPSTEIN, EVP & CEO, Roxboro Savings Bank, SSB
 SARAH GETZLAFF, CEO, Security First Bank of North Dakota
 MARTIN J. GRUENBERG, Director, FDIC
 KENNETH KELLY, Chairman & CEO, First Independence Bank
 BRUCE KIMBELL, President & CEO, First Community Bank of the Heartland
 THOMAS LEAVITT, President & CEO, Northfield Savings Bank
 LORI MALEY, President & CEO, Bank of Bird-in-Hand

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TERI MESSERSCHMITT, President & CEO, South
Ottumwa Savings Bank
PATTY MONGOLD, Chairperson, President & CEO, Mt.
McKinley Bank
GILBERT NARVAEZ, JR., President & CEO, Falcon
International Bank
MARK PITKIN, President & CEO, Sugar River Bank
ALAN SHETTLESWORTH, President & COO, Main Bank
CATHY STUHLIK, Chairwoman & President, Clackamas
County Bank
LOUISE WALKER, President & CEO, First Northern
Bank

ALSO PRESENT:

BOBBY BEAN, Associate Director, Capital Markets
Branch, Division of Risk Management
Supervision
LEONARD CHANIN, Deputy to the Chairman for
Consumer Protection and Innovation
SUSAN COSPER, Board Member, Financial Accounting
Standards Board
DOREEN EBERLEY, Director, Division of Risk
Management Supervision
CHAD DAVIS, Moderator, Deputy to the Chairman for
External Affairs
FRANK HUGHES, Regional Director, New York Region
JOHN JILOVEC, Deputy Regional Director, Kansas
City Region
RICHARD JONES, Chairman, Financial Accounting
Standards Board
SHAYNE KUHANECK, Acting Technical Director,
Financial Accounting Standards Board
CLAIRE LAM, Acting Director, Office of Minority
and Women Inclusion
YAN LEE, Economist, Special Studies Section,
Division of Insurance and Research
ASHLEY MIHALIK, Chief, Banking and Regulatory
Policy Section, Division of Insurance and
Research
BRANDON MILHORN, Deputy to the Chairman & Chief
of Staff

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RAE-ANN MILLER, Associate Director, Risk
Management Policy Branch, Division of Risk
Management Supervision
SHAYNA OLESIUK, Associate Director, National &
Regional Risk Analysis, Division of
Insurance and Research
JOHN RIEGER, Chief Accountant, Division of Risk
Management Supervision
BETTY RUDOLPH, National Director, Minority and
Community Development Banking

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Adjourn

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P-R-O-C-E-E-D-I-N-G-S

1:03 p.m.

CHAIRMAN McWILLIAMS: Good afternoon, or good morning, as the case may be, depending on where you are in the country. Welcome to the July meeting of the FDIC Advisory Committee on Community Banking. Thank you for taking the time today to participate. For participants who are watching from afar, thank you as well.

This is the first time that we've had a virtual meeting of this committee. We last met in October and obviously, the world has changed quite a bit since then. Your banks have been on the forefront of fighting the pandemic and helping borrowers to save their homes and be able to make their monthly obligations. Thank you for that.

While I wish that I could be with all of you in person, I'm pleased that we're having this important discussion and at least we're able to get this meeting done. Before we get started,

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I'd like to take a minute to welcome all the new members for joining us for the first time.

We have a little bit of an echo.

MR. DAVIS: If you can just put your mute on, that would be good.

CHAIRMAN McWILLIAMS: Yes, if you can just put yourself on mute unless you are partaking in the discussion, that would be good.

So the new members of the committee, Shaza Andersen, CEO of Trustar Bank, Great Falls, Virginia. Welcome, Shaza. Teri Messerschmitt, President and CEO of South Ottumwa Savings Bank in Ottumwa, Iowa. Welcome Teri. Patty Mongold, Chairperson, President, and CEO of Mt. McKinley Bank, Fairbanks, Alaska. Hi, Patty and welcome.

So again welcome to everybody. Thank you for being with us at this important meeting of the of the feedback committee here at the FDIC and I look forward to our discussion.

I will now turn the program over to Chad Davis, who will serve the moderator for

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today's meeting. Thank you.

MR. DAVIS: Thank you, Chairman and before I get started, Director Gruenberg, did you want to say anything?

(Silence)

Okay. We will then move to discussion of local banking conditions. I would ask as we go around to everyone that members please try to keep their comments to about three to four minutes. In doing the math, if we kind of generally keep to that time frame, then that's our best shot at staying on schedule for the agenda.

After we've heard from the committee members, we've also asked some FDIC staff members to discuss observations from a national and regional perspective. Shayna Olesiuk, Associate Director, National and Regional Risk Analysis from our Division of Insurance and Research is going to cover some observations about the national economy and banking trends. We also

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have Frank Hughes, the FDIC's Regional Director from the New York Region, and John Jilovic, who is the FDIC's Deputy Regional Director for Risk Management from the Kansas City Region today. They're going to discuss local observations from the local FDIC staff.

I'd like to start our committee member discussion with Lori Maley, who will be followed by the other committee members.

Lori, thank you.

MEMBER MALEY: Thank you, Mr. Davis. First of all, I would like to thank you, Chairman McWilliams, and all the members of the FDIC, Federal Reserve, and State Banking Regulators for your leadership during these most trying times. Just as employees and customers look to us as bankers during uncertainty, so we too look to our industry leadership for guidance and insight.

I'd like to start off by saying timing is everything. Had we faced this crisis six years ago, the challenges may have been too much for a

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start-up bank. However, during the first six months of 2020, the bank experienced several milestones even during COVID. The bank surpassed 70 employees. The bank also crossed \$500 million in asset mark in just under six and a half years. The bank had reached the critical mass necessary to weather this storm.

I think there were two main reasons we had this. When we look at this: how do we keep our staff and customers safe? And how do we make sure our customers are satisfied financially during this disconcerting period?

So we have actually approached it from several different directions. On the deposit side, we removed service charges, including overdraft fees and minimal balance fees on deposit accounts, so if customers dropped below the minimum balance, there were no fees. We offered deferred payments on loans to those customers who needed some temporary relief. These deferments were only for a period of 60

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days and the bank had approximately 170 total deferrals and only four of those customers asked for an additional extension of time.

We applied to be an SBA lender. We had not been one prior to the PPP program and basically it was a product we had not utilized in our community. The Plain community actually has their own fund where new farmers may apply and receive loans. I credit the SBA as I think they did a great job as far as the timing in approving the SBA lender status. However, at that point, we were wary a little bit about putting into place a product that we really had no experience in using. And we were also unsure how the timing would be for us to get into the E-Tran system since it was something we had not done before.

We looked at the overall situation and looked at the risk profile and it was a little bit higher than our normal risk. So during this time, when all of this was going on, the bank was also helping our existing customers. We priced

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the majority of our term loans in response to the market conditions.

Overall, the bank has done about 407 total loan modifications in accordance with 150 basis points decrease in rates. We actually took a parallel path while applying for SBA 7(a) designation. We also teamed up with a fintech company called Kabbage that actually helped us participate in the PPP program. This allowed us to provide the application process to both customers as well as our non-customers. In total, we were able to process \$7.5 million for approximately 100 applicants.

We were able to operate at our facilities with full staff from the onset of the virus. We closed our lobbies and we assisted customers through the drive-through as well as walk-up windows. Since our IT platform provided us with roaming profiles and many employees were already equipped with laptops, we were able to maintain full production with both retail staff,

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as well as our operational employees.

In the Lancaster County market, we continue to see growth and strength on the residential side, be it construction or renovation. Window suppliers are not able to get in enough product fast enough and shed builders are about six to eight weeks behind in orders.

We have seen large commercial construction restarting after a pause. Healthcare and retirement communities are still struggling with losses tied to the cost of PPP equipment. Restaurants and hotels are suffering also. Pennsylvania has scaled restaurants back to 25 percent capacity and that includes restaurant workers.

We have very little exposure right now in this industry, but it is an area of uncertainty in a lot of the bank loan portfolios of other banks. Airbnbs, on the other hand, they're booked solid in the area, so I think people are making alternate plans as far as vacationing.

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The agricultural business is continuing as an essential business type during COVID. The Plain communities have diversified their farms. They may be tobacco farmers, but they also raise chickens. Dairy farmers did feel the pain as the closing of schools and restaurants created a disruption in the demand for fluid milk. So the milk margin has recently increased and provided some relief to the dairy farmers. Real estate collateral values, believe it or not, are holding well and there has been an increase in pricing based upon the last several real estate auctions that we've seen.

The Lancaster area is one of the most unique based upon the culture and people who make up the community. In this area, our customers view disruption in the market as a presentation of opportunities.

From March through June, the bank originated \$57 million in loans through June. At the onset of the crisis, the bank set up an

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executive dashboard that allowed us to monitor any movement or deterioration in key indicators, which included overdrafts, loans 30 days past due, draws on lines of credit, and also deposit trends.

Deposits also grew over the past six months by \$40 million as people pulled money out of the market in what I call flight to safety. We have not seen a migration to date in our loan portfolio. As of June 30th, we had only one loan 30 days past due with a balance of \$27,000.

We were bracing for a possible uptick in delinquencies in the residential loan, the rental loans, as we anticipated people may not have been able to make their monthly rent. We did not see this, nor did we see lessors and landlords, who are customers, ask for deferrals. I spoke to one Amish customer that has a 50-unit building. He stated that there was not one person who did not pay their rent. Also, he said units were at full capacity.

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While other banks are closing branches in areas where there are few options for Amish and the Plain community to bank, Bank of Bird-in-Hand will be rolling out two more of its flagship mobile banking units. Gelt Bus Number Two and Gelt Bus Number Three, Gelt Bus meaning money or cash. So, these two mobile branches will create eight additional locations where the Amish and others in the community can have access to banking services within their travel circumference.

The new mobile units are larger than the original Gelt Bus One and provide additional privacy to open accounts, as well as conduct business inside the bus. These are anticipated to roll out in early September.

During this time, I realized how blessed we were to be able really to keep the bank at full employment. So many people had to deal with loss of work, loss of health, and some loss of life. We look forward to the remaining

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part of 2020 with cautious optimism.

We, as bankers, need to stay focused on doing what we do best: helping our customers and being a staple in the community. Thank you.

MEMBER EDWARDS: Well, good afternoon or good morning as the case may be from the different participants. I'm Jim Edwards and it's great to be with everybody even if it is virtually, by virtual meeting today.

As a reminder, United Bank, the bank I'm CEO of, is a closely-held 110 year old community bank with about \$1.7 billion in assets and we operate in ten contiguous counties south of Atlanta.

Chairman McWilliams, if you had told me the last time we met, if you could have looked into a crystal ball and said "Now, here's what's going to happen, we're going to have a pandemic and the next time we meet you'll be several months into that pandemic. Many of your retail customers will be shut down. A significant

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portion of your employees will be working from home." I never would have believed that we could do all that and be in that sort of environment and have the bank continue to function and meet the needs of our customers, frankly, as well as I think we've been able to. But we have, and that is really, really encouraging.

You know, we initially closed our lobbies, except for pre-arranged customer appointments and we relied heavily on our call center and interactive teller systems and those worked very, very well. And we worked hard to disperse our functions, our key bank functions geographically, spread people out throughout our system. We had to ask our employees to really be flexible and really stretch themselves.

We had all been through plenty of contingency exercises previously, obviously, but had never done it to this level. And I guess at the end of the day, I'm very pleased that I feel like the bank is -- we've really built our

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resilience and that's not just our bank. I think our entire industry has certainly done that here over the last several months.

But Georgia was one of the first states to reopen and we reopened our offices here in early June. We installed shields. We required masks pretty much from the get go there. But things are working out well and lobby volumes are back to, probably, I would say 80 percent of what they were pre-COVID. So we're pleased to see customers coming back in the bank and obviously continuing to use our digital channels as well.

We still have about ten percent of our employees that are working from home. We've got a significant additional number of employees that are partially working from home. But overall, we've been very fortunate that only about two percent of our employee workforce has had the virus here.

So, having said all that, it's taken a tremendous amount of time for our HR areas to

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deal with the COVID-related issues and training and things like that. And as we look towards school reopenings here in Georgia here in the next month or so, that's going to present another potential problem if schools aren't able to open. We've got to figure out how to help employees who have young children that they may need to stay home, obviously, to school at home or other things.

The PPP loan program was a very big success in our bank. We closed over 1,400 loans, totaling over \$113 million. Our smallest loan was below \$1,000 and our largest loans ranged into the several million dollars, but 80 percent of our PPP loans were under \$150,000. So we're really pleased to be able to help so many of our small business customers with that important program and I would echo Lori's comments and say that, obviously, there were fits and starts with the program, but it was pretty impressive to see how the SBA stood that program up in Treasury,

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and so kudos to them.

Our volume in PPP loans has slowed dramatically, but we closed one yesterday. So, we are still making new PPP loans.

Deferrals, we had a very liberal payment deferral policy when the virus outbreak initially hit here. We deferred loans pretty much across the board for people that asked, up to 90 days. Those loans will come -- or those deferrals will come to an end here at the end of the month. We ended up deferring about 11 percent of our loan portfolio, and we will continue to look at those on a case-by-case basis.

But I have to tell you, I'm very pleased that it appears that it about 90 percent of our loan deferral customers tell us that they've either started, restarted making payments, or they're telling us they're going to be able to do that. So that's good and that's pretty much the same whether they're small business customers or our mortgage customers. So

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that is very positive and we're very pleased about that.

Areas of the portfolio that give us the greatest concern, this is no -- I'm sure this is probably similar to other banks, but hospitality industry is really hurt in our area. Restaurants still have a long way to go and are struggling. A number of retail customers are continuing to have issues. So, those are the three areas that I think we're spending the most time trying to assist customers with and monitoring from a portfolio standpoint.

Other concerns, margin pressure. With the decrease in market interest rates here, we are certainly going -- we are experiencing, beginning to experience margin pressures that we did not budget for at the beginning of the year, so we've re-run budgets. I still think the bank will have a very solid year, but it will be a challenging year due to that margin pressure.

We've also seen other fee areas such

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as debit card interchange really slow down. That's coming back now, but early on that really dropped off the cliff when the COVID outbreak initially occurred here.

Having said that, our pipelines are very, very strong, almost at record levels. New home construction is really, really strong and we have virtually no stale - and our builders have virtually no stale inventory and so it's just a really strong housing market in Georgia right now and that's exciting to see.

Other positives, deposit growth, the bank has grown \$200 million or almost 20 percent here in deposits year-over-year. So this is just incredible growth in deposits and again, for many of the same reasons that Lori mentioned earlier in her market there.

Our permanent mortgage originations are also at record levels, really, really strong mortgage volume, both on the refinance and the new construction or new purchase side.

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So overall, I'm very pleased to tell you that the state of banking in Georgia is quite positive, given all that we've been through here. Thank you very much.

MEMBER WALKER: Good afternoon or morning, whichever it is in your area. I'm Louise Walker and I'm the CEO of a \$1.6 billion community bank which is located between San Francisco and Sacramento in California.

I, too, want to thank Chairwoman McWilliams for her leadership and for the leadership of the rest of the FDIC staff.

We are clearly now in a new crisis, the likes of which we have never previously encountered (audio interference) and the financial crisis. We are operating under the premise that we cannot control everything, but we can navigate through anything. So that's what we've been doing for the past five months which frankly seems a lot longer than five months.

We have remained opened for business

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for our customers, while 40 percent of our workforce is working remote. While we feel good about where we stand today and how we've managed the impacts of COVID-19, there is significant uncertainty in the months ahead. While we have low exposures in these areas, we feel the hardest hit loan types will be commercial real estate, specifically in office and retail. We also expect hotels, restaurants, churches, schools, and gas stations to be impacted due to the shelter-in-place orders, the reopening, and the subsequent closures due to the increases in COVID-19 cases in our area. All of these areas have been greatly impacted.

Industrial and multi-family sectors have been positive in our region, while a decline in occupancy, effective rents, and valuation is expected, we believe that it will be relatively mild.

Agriculture is facing headwinds, specifically in the area of nut tree farming which

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has experienced increased supply because of really good weather and low prices. Rice and tomato crops continue to be strong.

Construction is robust with most contractors doing well, but some have public works projects that may face challenges ahead as local governments experience impacts to their budgets. And then housing, as Jim just said, is extremely strong and resilient in our market area.

Back in March, we offered a temporary forbearance program for our customers and I want to thank again FDIC for your guidance on encouraging us to work with our borrowers, which is exactly what we have done. Approximately ten percent of our loans are on payment deferrals, mainly those secured by commercial real estate, for up to six months.

During the second quarter, deferrals have been muted. Some loans have recently come off of forbearance and they are making payments.

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In March, we also provided accommodations to further assist our loan and deposit customers during this challenging time, including the waiver of nonsufficient fund fees, late fees, and early withdrawal fees on certificates of deposits. We had already offered free checking and this will go through August 1st.

The bright spot continues to be mortgage production due to low rates and an uptick in refinancing activity, so our staff has been very busy in that area because we stayed in the business of offering mortgages.

We remain in contact with a group of customers and we have since the beginning of March to track their resiliency to the challenges ahead. Our pipeline has slowed somewhat, but is acceptable and we see opportunities focused in agriculture, multi-family, solar, and industrial. Competition remains strong and pricing continues to be aggressive.

We have also increased loan loss

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provisions and are experiencing margin compression due to the recent Federal Reserve interest rate reductions and our deposits have grown over 30 percent.

I was moved and so proud to see the passion put forth by the bank's employees to deliver for our clients and communities. We participated in the PPP and originated 1,320 loans, totaling \$235 million, impacting 24,510 jobs. And 28 percent of those loans went to underserved communities and 33 percent of the dollars to underserved communities.

Prior to PPP, on March 24th, we also went through an online banking and mobile banking conversion and -- which was quite an experience because it was done remote. And we also see our mobile deposits have increased 58 percent over last year.

In April and May, we had a remote FDIC compliance examination. It was the first remote examination experience for both of us and we

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appreciate the willingness of the regulatory team to be flexible during the examination.

Today, I'm hoping to learn more about CRA modernization for non-OCC licensed entities and any additional color that you can provide on the recent interagency examiner guidance for assessing safety and soundness considering the effect of COVID-19 pandemic on institutions.

And then, just as an FYI, California is considering pending legislation which is AB-310 that would convert the California Infrastructure and Economic Development Bank, also known as IBank, into a deposit-taking, state-run bank. So this is an additional step over public banks. Thank you again.

MEMBER NARVAEZ: Good afternoon, everyone. Gilbert Narvaez, Jr. I'm President and CEO of Falcon Bank. I'd like to start off by thanking Chairman McWilliams, the Directors, and the rest of the FDIC staff here today for the opportunity to participate and serve on this very

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important advisory committee along with my fellow committee members.

Local conditions in this part of the nation, our bank is headquartered in Laredo, Texas. We conduct business along the U.S.-Mexico border down from the southern tip, which is Brownsville, and all the way to Del Rio and we also extend our footprint into the south central region of Texas into the San Antonio and Austin metropolitan areas.

Our footprint services communities comprised of predominantly Hispanic population and many are located in low-to-moderate communities. Laredo is one of the largest inland ports of entry between the U.S. and Mexico, so international trade and the transportation business is very important to us and they're very important sectors.

Other forms of entry along the border, outside of Laredo, serves as additional trade and distribution points. The passage of the U.S.-

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Mexico-Canada trade agreement earlier this year sealed any uncertainty of trade disruptions, so the trade sector and transportation business is very strong and continues to be strong even in this pandemic situation.

Although the pandemic has affected the unrestricted cross-border crossings, the bridges remain open for transportation and trade activity and other essential travel. The closure of the bridges have affected retail, hospitality, and restaurant business sectors of those cities along the border and the other service areas in San Antonio as well, (audio interference) on tourism and has also affected the hospitality and restaurant business and other retail as well.

As far as customer and employee safety, that has been of utmost importance for us. We've established appropriate social distancing. We continue to meet the needs of our customers. We actively had to close some of our bank lobbies because of the hot spots that

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transpired in our areas. However, our drive-throughs are open -- all of the drive-throughs are open and the lobbies are open by appointment and that seems to be predominant with the rest of our competitors or competition around here.

We have also reduced some lobby hours for those that remained open. That also follows with what the competition is doing.

We approximately have one-third of our workforce working remotely from home, and we've also sent our high-risk employees to work from home or to stay home and not risk contracting any complications due to the pandemic.

For customer support and community support, we've received tremendous positive feedback from the PPP loan program. We helped out almost 500 small business customers to the tune of \$35 million. We've assisted the local food banks and other civic organizations that are under relief efforts, so that the customers that have been affected or communities that have been

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affected. And we also have assisted a lot of our borrowers with loan modifications as well, offering some relief to the tune of about 32 percent of our loan portfolio in some type of loan modification.

I'm happy to report that a good portion of them are -- have already returned to normal payment behaviors and we expect that at least 90 percent of those borrowers will be able to come back and continue their normal payments.

We've noted an increase in digital channel usage by customers during this time, online banking services and products. We've also noted that customers' spending habits (audio interference) merchant income, debit card usage and also customers are not spending what they used to.

Like the rest of the U.S. regions, this pandemic has also affected our unemployment. The pre-pandemic unemployment rates were -- in the areas that we operate ranged from a 3.1

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percent to 6.5 percent and now those same areas are in the 12.7 to 17 percent range. And our statewide unemployment rate stands at 13 percent.

Other areas that we -- that have been affected are earnings. There has been some net interest margin compression caused by the zero interest rate environment. We had to make additional provisions for loan loss to the tune of \$2 million so far this year. And like I noticed before -- mentioned before, debit card interchange income has also been reduced. People are not spending in the areas that they used to spend before.

Liquidity, we have been -- noted an increase in deposits of up to \$100 million. A lot of them have to do with the PPP loan disbursements and other safe harbor deposits from customers and some of the public funds that we also hold for our customers.

Capital, while still strong, deposit growth has affected our Tier 1 Leverage, but still

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remains very strong. Credit quality, it's kind of really difficult to tell right now. There are some concerns regarding loan modifications and deferrals, and -- but we anticipate that it should remain strong as well.

We hope that this pandemic situation improves and that we have continued growth, a pathway to further opening of the economy and that will lead us to a new normal way of conducting business and servicing our customers. That concludes my report. Thank you.

MR. DAVIS: Cathy, you're next. (No Response) Okay. We can go back to Cathy. Ken, you're on.

MEMBER KELLY: Thanks, Chad. Can you hear me?

MR. DAVIS: Yes.

MEMBER KELLY: Okay, thanks, Chad, and good afternoon, everyone. I'm Kenneth Kelly. I serve as Chairman and CEO of First Independence Bank. We're actually a 50-year-old institution

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roughly right at about \$300 million in assets. Ironically, we're celebrating our 50th anniversary having been one of the positive byproducts of the Detroit riots from 1967.

Leadership has always stated that it's in the little things, and I think my friend, Jim, mentioned it earlier. We have been seeing some of the impact of COVID-19 hit us in many areas, even ATMs, I think he mentioned. Also just we've been seeing compression of our margins going forward and competition, actually a little bit of runoff in facing competition in the current space that we have now.

The good news is our wealth presence has increased as we went through shelter-in-place there in Michigan. And so it's given us a little bit of an opportunity to have a broader reach in -- with our website.

Like many others, PPP was a component we got pretty deeply into and was very successful in meeting not only our customers' needs, but an

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example, through the first round I think close to 40 percent of our PPP recipients were non-customers. So it gave us a chance to build our brand with some individuals we knew in the community and in particular nonprofits. We had a chance to build a good rapport with them.

What we're seeing in our portfolio is very similar to what I thought maybe Gilbert or someone just mentioned a moment ago. We're about 20 percent in the forbearance and deferral process, kind of due to COVID. On the residential side, we were right about ten percent. So the challenge is kind of this bandwidth of how long will we have to shelter-in-place and what's the impact that's going to be in our sector.

We've had and been through examinations. I want to take a moment to thank the Chicago staff on the compliance side. They were very helpful. I know it's under the leadership of John Henrie there, but Bela Joshi and Adam Traverse were very flexible in working

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with us through the April time frame. When we had a compliance exam, we were able to kind of push that out, so I just want to thank the staff publicly for their help there and we were able to get through it.

Also, Gabriel and Kristin have been doing some follow up for us so I just want to say thank you to the staff in their being flexible and working with us kind of during this trying time.

On the NBA side, the National Bankers Association, there is definitely a desire for many to now increase deposits within our association after the George Floyd incident. I would tell you we have been very successful in striking a partnership with the ABA. Many of you are very familiar with the ABA. That was actually announced and publicized in April. It is something we think that will certainly build a strategic strength of the National Bankers Association in building on the Mentor Protégé

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Program through Treasury, et cetera.

But the real needs of our association and minority banks across the country is equity capital and it's one of those that I will tell you I'm personally concerned about at this point in time because as we know, demographics will show that minority communities have typically taken it a little bit harder during the downturns than others.

The second component of that really is revenue generation opportunities, where it makes sense, and so that's item number two. And then the third is actually deposits.

I've mentioned the data demonstrate that these communities and these banks typically face it a little bit harder. One example of something that's positive that will hopefully ride into this is the partnership that Wells Fargo announced back in March, basically noting that they were going to invest up to \$50 million into minority institutions. This is one example of

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the type of partnerships that we're going to need to be sure that this sector is successful in meeting the needs of the communities that they serve.

A couple of things I'd like to mention, kind of policy oriented. One is brokered deposits. I know there was an ABA article, American Banker article, that just came out that quoted Chairwoman McWilliams regarding the brokered deposits and being sure that, you know, asset growth restrictions could be somewhat applied to that.

I think we need to have a smart policy in that regard. There was a good case that was built on the People's Bank in that article and so I just want to refer to that, if those who are listening haven't had a chance to look at that.

And then the second one is CRA reform. I know there was a proposal that came out from OCC, but we just want to be sure that that's on record as one that we're really interested in and

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being sure that it meets the needs of the bank.

So the bottom line is I will tell you before closing that the George Floyd situation really demonstrated inequities and how they resonated not only in our country, but around the world. And I just want to take a moment to reflect upon one of the officers of the FDIC who kind of called me out of the blue, Teresa Sabanty, out of the Chicago Office. And we had a conversation I tell you that resonated very well with me. I know I've had a conversation, also Madam Chair, with you on some of these topics. And I say that because I believe the banking sector has a role to play in ensuring that where there's an opportunity to create more equity across our country, we should be taking the lead in doing that.

And so, I just want to offer to my colleagues who sit around this table with me, when we think about a capitalistic society, it is always based on finances and so our institutions

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represent the repository for those finances and I'm hopeful that we can do that in a way that demonstrates equity across the country. So those are my closing comments. Thank you, Chad.

MR. DAVIS: Thank you, Kenneth. Shaza, you're next. And welcome.

MEMBER ANDERSEN: Hello, thank you. Good afternoon, everyone. I'm Shaza Andersen, CEO of Trustar Bank. I'm really thrilled to be joining this committee and to participate on today's call.

And I want to thank Chairman McWilliams especially for making significant changes in the area of approving de novo banks. As it happens, I am a de novo bank. We just celebrated one year - our one-year anniversary. We were the first community bank to be chartered in the Greater Washington Area in over ten years. There hasn't been any other bank that has started before then. So I really thank you for making that happen.

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The Greater Washington Area is a very attractive market and we're pleased that, you know, after one year, we're currently at \$250 million in assets with three branch offices. So the bank is doing well, but like everyone else, we did not anticipate a pandemic of this magnitude and we really have been able to jump right in and try and serve our community which is why we, you know, started the bank.

We have remained open throughout the entire pandemic. We've followed all the CDC guidelines and we gave employees an option to work from home, but also to alternate, you know, working from the office, but we remained open. We never really closed our doors.

And of course, we jumped in with everybody else and we started doing the SBA's PPP program. Our little bank was able to approve and process over 350 loans in a two-week period, generating over \$80 million in loans.

Talking about the GW Area, the Greater

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Washington Area, our area is really a real estate market. It's real estate or government contracting. We don't have manufacturing. We don't have agriculture. So we're very -- a niche area I call it, and we were fortunate as a new bank that we didn't have any clients or we haven't experienced clients that were severely damaged by the pandemic. So we haven't really needed to offer forbearance to clients and then the PPP program helped a lot of people remaining open or paying their employees and everything that it entails, the CARES Act.

So with that I would say that our pipeline has remained healthy. We're doing things different throughout the pandemic. We're a little bit more careful about the loans that we approve, but again, going back, it's a real estate market, it's a government contracting market and, you know, those two areas have not been hit as hard as restaurants, hotels, et cetera, airlines. So, but we do have a challenge and it's the

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margins, the shrinking margins I call it.

But what we're doing right now is we're planning for 2021. We're thinking of creative ways to try and make up that difference somehow, but we're really excited to continue to serve the Greater Washington community and be able to try and come through this pandemic altogether, you know, as healthy as we can.

So with that, I thank you all and I'm really looking forward to working with all of you. I know I'm a new member on the committee, but I'm just really thrilled to listen to everybody's story and work with each of you. So thank you.

MR. DAVIS: Thank you, Shaza. Alan, you're up.

MEMBER SHETTLESWORTH: Chad, can you hear me? This is Alan.

MR. DAVIS: Yes. We can hear you. Thank you.

MEMBER SHETTLESWORTH: Great. Thanks,

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Chad. Good morning, good afternoon, everybody. This is Alan Shettlesworth. I'm the President and COO of Main Bank. We're located in Albuquerque, New Mexico. We have one location. That one location has made an extremely interesting time for us dealing with COVID. Most of our folks are able to work remotely, but several of the functions in the bank cannot. And so that's an area of major concern for me right now and will be for at least another year is making sure that we can attempt to maintain normal business function with realizing that we have one location and the exposure for us, or the risk for us, if we are to catch the virus inside the bank is pretty significant. So that's something we certainly have our eye on.

But we closed our lobby door early in March and we have not opened it since, and I don't know that we will be opening it later this year. We're doing appointments only and we're able to conduct most of our business through the drive-

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through so that seems to be okay and very very little, if any, negative feedback from any of our customers. So we're able to accommodate them and they're being very flexible given the situation.

So going into this environment, so at the end of March we were about \$180 million in total assets. Our focus is small- to medium-sized commercial businesses. We do - we have very little in the way of consumer traffic. Post-COVID or now, we find ourselves at \$220 million in total assets, so we approved about \$38 million in, I'm sorry, \$48 million, I apologize, \$48 million in PPP loans with a total of 275, and so that was a real blessing for us to be able to focus on that stimulus as opposed to dwelling on the potential negative consequences from this pandemic. So it was a blessing for us to be able to reach out and do that.

About 30 to 40 percent of the PPP customers were brand-new customers that were unable to be helped by the larger banks or some

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of the other banks and credit unions in our market. And so we were able to pick up a lot of opportunity there. So that's been a real blessing and so we started out in March at \$180 million and now we're about \$220 million.

We're fine with that. We hope it's short term because that has obviously blown up our balance sheet a little bit. Our capital was just under nine percent in March and today it's about 7.3 percent. And so we have been in contact with our FDIC and state regulators in New Mexico and they're not putting any pressure on us, thankfully, but we're hopeful that we'll level out and get somewhere closer to \$200 million by the end of the year if everything goes according to plan.

We have about 24 percent of our portfolio in some type of deferment, either outright payments or interest-only. Some customers are starting to go back to normal payments. Some of those customers who were

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deferred have improved to interest-only and so we'll be working with that.

We're in a fairly restricted state with New Mexico. The governor there has put on some pretty tight restrictions and so many businesses still cannot open. Fortunately, we don't have a lot of that. We do have some customers who still cannot open, and I don't know -- I don't know how long you work with certain customers in those situations, 90 days, six months, for some of these customers, it's clearly not going to be enough. And so I'm starting to think if there's a reasonable path to get folks relief for a year and a half or up to two years, I think that's kind of our strategy of looking at any loan modifications for folks. I don't want to put a band-aid on this. We need to help these folks through, and it's going to be a long road.

I am amazed to see though that we are actually able to make some money on the one percent PPP loans, forget the fee income, just on

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the interest. We are technically slightly positive, and it was interesting that we just finished the second quarter of this year of 2020 was the best quarter the bank has ever experienced, although I think there's some fake news in there because who knows which of our customers right now won't ultimately be able to recover.

And so the economy overall is -- some customers are doing phenomenally well. I would say at least 60 percent of our PPP customers, in hindsight, did not need the PPP funds. We didn't know that, of course, and neither did they going into it. So that's the positive side. The negative side is there's 40 percent who really desperately needed it and they need another round or two and so I'm unclear if those businesses - the restaurants and hotels and other ones that are additionally restricted by our governor, I don't know how they get out of this trap. So that's our concern is working with those folks

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for the next couple of years.

So anyhow, in general, we are closing some new loans which is exciting, but not a lot. A lot of the projects are on hold so -- but we're trying to find a way to make loans because I think one of the biggest detriments you could have on an economy right now is that lenders, like us, pull out of the market and just sit it out. So we're not interested in doing that. We are looking at all options for deals. If we can do them conventionally, we will, but if we need to put an SBA guarantee on it and do an SBA 504 loan, we're happy to do that as well.

So given the situation, all things are about as good as can be expected right now. So thank you for having me.

MR. DAVIS: Thank you, Alan. Patty, you're up next.

MEMBER MONGOLD: Thank you. I'm Patty Mongold, President and CEO of Mount McKinley Bank in Fairbanks, Alaska. We're right in the interior

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of Alaska and we have a trade area of about 105,000 people. It includes two large military bases, one communication hub, and a missile defense site.

The main economy in Fairbanks in the interior is government, followed by oil and tourism. And many of our customers are in tourism and the current situation has caused a lot of stress. We -- they rely heavily on tourists coming up from the Lower 48, from other countries, and that market is just shut down. Those customers, some of them, get up to 90 percent of their income during the summer months and, you know, the end of July, and they're facing - excuse me - many, many cancellations. They have a lot of reserves, so they're going to be fine, but a second year of this virus would be very devastating for them.

One bright spot in our economy is that the Air Force base here is expanding and getting the F-35 fighter planes. So there's been a lot

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of construction and a whole lot of activity related to that and it kind of has a trickle-down effect.

For competition, Alaska has five banks, local banks, four of which operate in the interior. We have two national banks that operate here. We have ten credit unions in the state, five of which operate here. We compete pretty heavily with the credit unions. They have the tax advantages that you're all well aware of. And that allows them to pay a higher rate of interest than we can pay, so we fight for our core deposits pretty regularly with the credit unions.

We also have seen a lot of competition with mortgage lenders coming in from online or out of state, and they've been able to capture a lot of the market because of their marketing budgets, but we've been seeing a few of those people come back to us because of lack of ability to get their lender to call them back or just the slow service that they were receiving. So that's

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been helpful.

We ended 2019 with \$467 million in assets and \$94 million in capital. We've been working towards slow, steady growth for the last five years, but 2020 has challenged us as our assets have ballooned to \$526 million as of June 30th. Much of that is due to the coronavirus and we have probably about \$45 million on deposit that's CARES funds, so those will be leaving. We made nearly 400 PPP loans for about \$40 million, so we were able to help our community quite a bit with that.

We continue to deal with the net interest margin compression, and we've had a substantial turnover in our investment portfolio and I'm thinking that 2021 is going to be a challenging year.

We've had a difficult time attracting qualified personnel. We seem to have -- we've been working on succession planning for several years and we have a lot of people getting ready

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to retire. It seems that there's not a lot of young people going into the field of accounting and finance so that's caused us to have to try to look out, work outside the box and we started a management trainee program with hopes of being able to create our own future accountants.

One of the bright spots for us in 2020 was our safety and soundness exam which happened in February. We had a very collaborative exam. We had a great exam team both from the FDIC and the State of Alaska, and we came away from that exam feeling pretty positive about the direction we were headed.

I'd like to thank the FDIC and Chair McWilliams for inviting me to be a part of this group. I'm pretty excited to be able to join you and look forward to future meetings. Thank you.

MR. DAVIS: Thank you, Patty. Fred, you're up next.

MEMBER DIBIASI: Good afternoon. Thank you, Chad. My name is Fred DiBiasi. I'm

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President and COO of Valley Central Bank in Liberty Township of Middletown, Ohio, in southwest Ohio. I want to start out by thanking Chairman McWilliams and the staff at FDIC for allowing me the opportunity to speak today. I'd also like to welcome the new members to the committee, and I hope you find the experience as rewarding and enjoyable as I have.

To start with, you know, the pandemic, I will say this, I don't think I will ever roll my eyes at a regulator again when they ask for our pandemic plan. We used to kind of wring our hands and just kind of act annoyed when they would ask for our updated pandemic policy and now we certainly understand why as we've put our plan in full effect.

We closed our lobbies in March, for about three months, and we did reopen in June. We are back open for business. It's been quite challenging at times; we've had probably 80 to 90 percent of our staff working from home. We did

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find out a lot of things that did work well during that time and we found that we were very very efficient, more so than we thought we would be. So that was a positive.

We also, now that our lobbies are open I have to say I never in 30 years of banking ever thought I would see the day when we would encourage customers to come in the bank wearing masks. I never thought that would happen in my career and that's where we're at right now. And again, it's been a complete paradigm shift on a lot of levels.

PPP, you know, we participated. I can't say enough about our team at our bank at Valley Central. Really, the entire banking industry in Ohio, how the entire industry really stepped up and became the conduit for the PPP program and really put the capital in the hands of mainly in our market, the small businesses that needed it the most.

We'll see. You know, the verdict is

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out on how that's ultimately going to play out, but so far it's been a positive and it's kept a fair amount of doors open through that program and we were certainly excited to be a part of it.

In the deferrals, we had our fair share. We are a \$155 million institution. We had about a hundred accounts that were on - you know, they are on deferral. They are getting ready to come off of deferrals. It's about seven percent, eight percent of our portfolio that was on deferrals. Fortunately, we weren't really heavy in CRE at our bank. We did have a fair amount of non-owner occupied rental properties that were impacted by the COVID crisis that we're still kind of waiting and seeing where that takes us, as it plays out through the rest of the year.

We are certainly being aggressive, as we can, in increasing reserves just in anticipation for what could happen. We haven't seen any real detrimental impact yet, but I still think that, you know, it remains to be seen how

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it's going to play out.

On a positive, a really positive note, our mortgage banking operation has been robust. Our pipelines are full. We are really stretched to capacity. I know in our market in southwest Ohio, the inventory is low, demand is high for housing. Housing starts are up really in the Greater Cincinnati Area, the Miami Valley as a whole, we're probably up about 14 percent in housing, new housing starts. Of course with rates being low, the refinancing activity is high. Purchases are high. Homes are not staying on the market long and in a lot of cases, we're seeing bidding wars for houses going well above asking price. It's kind of just a strange dynamic right now with everything going on. So that's been a strong area for us, you know, in terms of activity and profitability.

Also, you know, we did have our largest employer in the Middletown area. We were traditionally a smokestack, now we're a steel

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town. Our largest employer, AK Steel, did merge late last year and you know, obviously, they had really no idea what was coming. It sounds like the merger provided them with the capital and resources, liquidity to get through this crisis where they may not have otherwise gotten through the crisis without it. So it kept their workforce employed and that certainly has helped keep our community somewhat propped up.

With that being said, again, thank you for the opportunity and again, look forward to how things play out the rest of the year. Have a great day and appreciate the opportunity.

MR. DAVIS: Thank you, Fred. Mark, you're up next.

(Silence)

Mark, are you on with us?

(Silence)

Okay, we can come back. Teri.

MEMBER MESSERSCHMITT: Good afternoon, everyone. I'd like to thank the FDIC staff for

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all that you do for us all year long, and also for allowing me to be a new participant in this group and to be able to contribute to the Committee.

My name is Teri Messerschmitt. I'm the President, CEO of South Ottumwa Savings Bank in Ottumwa, Iowa. Ottumwa, Iowa's located in Wapello County. We're located in the southeastern part of the state (audio interference) the Missouri line, about 75 miles west of Illinois. Our bank is about 117 years old, and we're currently at 550 million in assets.

We're headquartered in Ottumwa, Iowa, and we're the only community bank in Ottumwa. We do also have three other locations. We have locations in Albia, Hedrick, and in West Liberty. And the combined population really of all of our communities is only about 35,000.

Our communities, really, you could describe those as we have very little growth and stagnant populations. We have a shortage of

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skilled labor. And basically we have no new housing development going on in our communities. And as a result of that, we really haven't been able to attract new businesses and the job opportunities that would really come along with those businesses.

The unemployment rate in Wapello County has historically ran higher than the state average. And as of June, the end of June, we were at 9.9, and the state average was around 9.7 percent.

Our loan-to-deposit ratio is about 65 percent, and that really is the result of a low loan demand that we have in our markets. Our mix, we're about 50 percent commercial and commercial real estate. We've got 25 percent in Ag and Ag real estate, and another 25 percent in our residential real estate. We have very few consumer loans.

And really, our loan quality has been very, very good. It's been strong, we have very

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few delinquencies. We are keeping a close watch on a few of our loans now due to the COVID situation, but so far we have not done very many modifications. I think we've done 40 customers is what we've done so far.

Our major competitor in our market is the larger credit unions, and there is one credit union that does have several locations in several of our market areas. And we really feel like we can compete with the banks in all of our areas, but we really have a tough time in competing with the credit unions.

I strongly feel that those credit unions should be subject to the same standards that the banks are. And I think it's really ironic that some of the employees that work for these credit unions refer to themselves as bankers.

Agriculture is a big part of our communities, and the Ag sector continues to be a concern with the continued stress on the

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commodity pricing -- prices that we're seeing. Our concern is mitigated somewhat, a little bit by the fact that we do have probably 50 percent of our Ag customers that do have other off-farm income. That certainly helps take a little pressure off those commodity prices and makes them a little less dependent on their crop income.

And also with basically no growth in our community, we really don't have any market, very little anyway, market appreciation in our land values. So we feel like the collateral valuations that we're using with our customers is very conservative.

Right now, our crops look really good, and we think that we're going to have some really big yields. That's barring any unforeseen circumstances that we're not aware of yet. We're really hoping to hold our own this year in the Ag sector.

One thing that we are seeing in the Ag sector is a lot of farmers looking at retirement.

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Some of them are starting to phase out already, and many of them don't have family members that are interested in stepping in and taking over the family farm. So there's going to be a lot of farms that are going to be up for rent or there's going to be a lot of competition for cash rents with other farmers.

And so, you know, with the combination of fewer farmers entering the market and some of them having difficulty in getting financing to get started, I think we're going to see these big farmers just continue to grow. And you know, they can come in, the big farmers, they can offer the higher cash rents and the higher price for the purchase of the ground. And I think it's just inevitable that that's probably what's going to happen.

Net interest margin continues to be a concern for our bank. With limited loan demand, we have 32 percent of our assets in the investment portfolio. And we all know how difficult it is

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to make money in the investment portfolio right now. So that's definitely a challenge for us.

Also, a big change for us, and it's kept us very busy this year, is we did acquire the Peoples State Bank in Albia. Our merger was completed as of the end of January this year. That merger allowed us to increase our assets to over the \$500 million mark, so that brought around some more challenges for us as well.

We started putting in some of the operational and the financial changes that we need to do because we crossed this threshold. And also, you know, the legal merger took place as of the end of January this year, but our operational merger is not going to take place until probably the end of January, for us, next year.

So based on that, we're going to be running two core systems for about a year. And there's some additional challenges related to that. We knew we were going to have those challenges with our purchase of the Peoples State

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Bank. They do a lot of their processing in house, so we knew that was going to add some challenges for us. But we really didn't know COVID was going to be a big challenge for us as well.

And in response to COVID, in March, we decided to go ahead and close all of our lobbies and we went to the drive-up situation as well. We did offer appointments only within our banks as needed for important appointments that needed to be made.

We kept our lobbies closed for about nine weeks, and a couple of weeks ago we actually had to reopen one of our lobbies again. Or, I'm sorry, close one of our lobbies again. And we just reopened that lobby yesterday. So we are happy to get them all open again and up and running.

During this time, we did strongly support the PPP program. We have ended up with about 300 loan applications right now, and totaling about 16 million. So we really feel

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like we strongly supported our local businesses. And we were willing to take applications from both customers and non-customers, where we have competitors in town that would only take their bank customers or did not participate in the program at all.

I would like to thank the FDIC and the Iowa Department of Banking for all the assistance they've given us on our recent merger that we've been working on and for the assistance that they offer throughout the year as well.

And you know, I'm also pleased to -- that the last FDIC exam that we had, it was very nice to see the bank ratings determined on something other than just raw numbers. It's nice to see other criteria, factors used, such as trends and stability and maybe the entire risk of the portfolio or the entire risk of the organization overall, rather than just pure numbers to take a look at in determining those numbers.

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So that's about all I have, and I thank you for your time.

MR. DAVIS: Thank you, Teri. Dick, you're up.

MEMBER BESHEAR: My name is Dick Beshear. Can you hear me all right?

MR. DAVIS: Yes, we can.

MEMBER BESHEAR: Okay, thank you. I'm Chairman of First Security Bank in Oklahoma City. I first want to thank Chairman McWilliams and -- for allowing me to be a member of the Committee on Community Banking.

I also want to thank Kenneth Kelly. Kenneth has been an advocate for MDI banks. First Security Bank is a minority depository institution. And he's shown great leadership through the National Bankers Association. And Kenneth, we certainly appreciate your, the time you put into that.

First Security Bank has experienced the same thing many other of our community banks

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have. We started the pandemic about 55 million in assets. Today we're about 65 million in assets. We've had a lot of growth of deposits. We've focused on taking care of our community. With two lenders we did about 305 PPP loans, for about five and a half million in loans for about \$18,000 per loan, with 84 percent of those going to minority businesses or minority individuals.

So we really feel like we reached out and took care of our customers like many others have not. We also got a lot of new customers during this process, and we're very pleased about that.

During the shelter-in-place part of our COVID experience, we did close the lobby to appointment-only. We had our drive-through open, and our customers were very accommodating to work with us in that manner. But like I said, we did do 305 PPP loans, so our lobby and our lenders were very busy during that time period.

Even before the pandemic, we started

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seeing a slow-down in the oil business and with layoffs in the oil and gas industry, as well as the service companies. We haven't really seen that effect. Our business at First Security Bank, we've only had about a dozen loan deferrals and loan extensions that we've done.

And by and large, our loan portfolio is performing all right. And we feel very good about kind of where we're at. We've communicated with all of our customers. Most of our customers feel like they'll be able to navigate the pandemic and hopefully come out on the other side in good shape.

That's really all I have right now, and I'll conclude my remarks.

MR. DAVIS: Great, thank you, Dick. Tom.

MEMBER LEAVITT: Hello, everyone, good to see you, kind of. We're hanging in there in Vermont. We have had less of the health effect in terms of the pandemic outcomes here than the

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economic effect. And that's partly due to the health protocols and safeguards that Governor Scott has put into effect.

He's been managing the crisis well with Dr. Mark Levine, the Commissioner of Health. So we have all cooperated up here for the most part in the Green Mountains and the Champlain Valley. So we've had one of the lower incidences of outbreak in the country, and I think we surpassed a full month without a death here just in the last number of weeks.

So that doesn't mean that we're out of the woods. It does mean that we've had a slower reopening perhaps than some. And due to that, we have experienced some real economic slowdown. I talked to you last year at this time about having a 2.1 percent unemployment rate, which was the lowest in the nation at the time.

We are now at 9.4 percent, but we have visited high teens early in this crisis as the hospitality, lodging, food services industries

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emptied out. They were the first to be hit, they're the last to be ramping back up. And we are one of the maybe top five or ten states in the country in terms of our dependence on out-of-state visitors.

So there's only so much food we Vermonters can eat ourselves. I've done a pretty good job of it with my family. And there are only so many staycations that we can engage in. But we really need traffic from around New England and the Northeast and other parts of the country, and Canada, importantly.

Like Gilbert on the northern end of the country, I'm dealing with a border that's closed for the most part. And so some of that traffic into the Chittenden County and other parts of the state, we've not seen. So we're looking forward to welcoming our Canadian friends back at some point.

So we're working our way back. The housing sector is strong. Some of the industrial

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sector has continued to crank along as they've had activity. The construction sector's come back slowly but starting to really pick up with the heart of the season now. They were allowed to begin with lesser crews and then ramp up.

We've seen a lot of PPP activity, particularly in April. We haven't seen as much with round two. We got a lot out to help our communities. We're approaching 1,000 PPP loans altogether. We, for those of you that are new, we're a 1,170,000,000 , give or take. That has ballooned some during this first half of 2020. And we're 153 year-old mutual in the heart of Vermont and up in the Champlain Valley in Burlington area, where I'm from.

We've also had the deposit inflows that come with the state and the federal relief programs and benefits. And those are sticky right now. We are a little concerned about when these loan deferments and modifications and the PPP funds and the idle funds start to, what we call

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up here in maple sugar country, evaporate or sugar off. That what's left in real syrup for those businesses that they can really nourish themselves back to full health with. We're not certain.

We are a bit encouraged, like others on this call, that some of those deferments are not seeking a second round. So we're hopeful about that. We also are feeling relatively good about our consumer base, that they at this point, given some of the programs that they've had the benefit of and that they have exhibited in terms of their deposit levels here at the bank, that they're hanging in there right now.

So our unemployment rate's now at 9.4 and we're look to get that back down into the mid-single digits. But we don't know if that's going to happen this year. So that will bring casualties, it will bring fallout. We have upped our provision by a couple million dollars in the second quarter.

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We took a loss, the first one since I've been here over six years, in the month of June. But we're also offsetting that with some PPP fee income that we'll be continuing to onboard over the remainder of the year.

We're in a phased resumption of activities here at Northfield Savings Bank. We returned to our strategic plan, NSB 2020. And we've got four phases essentially, three that take us through the third quarter of this year and then one big phase that goes nine months, fourth quarter through the second quarter of 2001.

And the reason for that is that we delayed our core conversion project, upgrading from Jack Henry CIF 20/20 to Jack Henry Silverlake, that was scheduled for October of this year. Now it will be May of 2021. So we essentially pushed our strategic plan out by six months, and we'll be building a new plan to take us into the heart of 2021.

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I just want to close by thanking Chairman McWilliams, Director Gruenberg, Doreen Eberley, and the whole team for the way you've listened to us in these forums. I came on in the May meeting of 2019, this is my fourth. We missed the spring meeting this year, I look forward to wrapping up in the fall.

But the way that we've introduced issues to this committee and the way that you've responded each time gives me great encouragement. It's really been something that our board and our management team have appreciated. So I look forward to hearing more about those updates that you're bringing to us today, and I'll get off the mic here in just a second to allow others to wrap up so we can get on with that part of the program.

I do want to put in one item today, and that is we topped the billion dollar mark in December of 2018. That was scheduled, we were anticipating that. But we have now had six quarters of FDICIA activity. We've got the

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control regime in place. We were preparing for that a couple years in advance. We have our external auditor reviewing and auditing those controls. We're not getting a great deal of compensatory utility from the 100,000 or so that we're spending annualized on that exercise, as a slightly more than a billion-dollar institution.

We certainly would be grateful for consideration relative to raising the threshold for the requirement for the external examination of those controls to continue. But we'll live with whatever the outcome is there. So I look forward to the rest of the day, and thank you for giving me this time.

MR. DAVIS: Thank you, Tom. Sarah, it's your turn.

(silence)

Sarah, I see you there, maybe you're having some difficulties. I'll come back to you shortly. Bruce.

(silence)

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MEMBER KIMBELL: Good afternoon. Can you hear me now?

MR. DAVIS: Yes, we can hear you, Bruce.

MEMBER KIMBELL: All right, wonderful. Thank you, sorry for that. I'm Bruce Kimbell with First Community Bank in Clinton, Kentucky. We operate a \$290 million bank located in southwestern Kentucky and northwest Tennessee.

We are primarily an agricultural bank, and very much like the folks from earlier from Iowa, we too have seen a wonderful growing season for our crops this year. Although prices are somewhat depressed, we, it's always better when we can at least have something out here to harvest. And so at this point in time we've got a wonderful crop, and that's boding well for the Ag industry in this part of the world.

We presently are servicing about 150 PPP loans that we completed. Being in a rural area, that particular program was pretty limited.

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That 150 loans is about \$6 million. So you can see on the average, about \$40,000. I think our largest loan was about 250,000. So that program very beneficial, but just not a lot of need.

We've seen really very few deferrals come our way, deferral requests. It's been very limited. Probably in our bank, probably less than 25 of our customers have asked for a deferral. Again, being in a very rural area, we've been somewhat insulated to our CRE exposure, really next to nothing. And so because of that, that bodes well for us during this time.

We do continue to see though a lot of activity within our residential portfolio here lately with a lot of interest in either refinancing or purchases too. Continue to see a lot of individuals move into our particular area looking for a more rural lifestyle.

And so I think I spoke to that at our last committee meeting. It seems like we have had an overabundance here lately of individuals

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moving out of more urban/suburban settings into a rural area. And we're very appreciative of that, that's been very strong and really helps kind of shore up our real estate market and we've been very pleased with that. So we hope to continue to see that happen.

Our loan demand within the Ag side has been strong too. We opened two new offices in Tennessee in the last six months. And so because of that, we've continued to see strong loan demand within that particular area.

And that's pressured us a little bit as we've grown. I said we're about 290, 295 million. And so because of that, that does keep us looking to make sure that our capital levels are such that we can be well prepared for any downturns that might come our way.

So we continue to work with all the regulatory folks. We had actually just completed both our safety and soundness and our compliance exam at the end of 2019, in early 2020 before all

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of the COVID situation arose. And we're thankful to get that behind us.

Our lobbies are all open at this point in time. We did close them for a few weeks back at the, I believe it was in the April, and we stayed closed probably for four or five weeks. And then those have all reopened now and everything seems to be going very smoothly.

Although I will say a lot of our customers have chosen to continue to take care of their business transactions through the drive-throughs and to limit their, you know, their lobby presence. And so that's worked out quite well.

Kentucky and Tennessee have had a little bit different reaction as far as the COVID part. Tennessee's been a little bit more open during all this time and that's really helped us, as a lot of the businesses have -- were able to maintain their presence and we were able to work with them.

We continue to see a lot of our

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commercial clients who we pick up look for a community bank. And so we try to fill that niche and really feel that it has played to our benefit to continue to be there. And so for those individuals that are still looking for the personal attention that a community bank can give them.

I want to thank Chairman McWilliams and all the FDIC staff for having us, and I appreciate it, and look forward to hearing everyone else's comments. Thank you.

MR. DAVIS: Thank you very much, Bruce. Bruce -- Keith, you're up.

MEMBER EPSTEIN: Thank you, Chad. It is an honor to continue serving as a member of this committee. I certainly appreciate this opportunity.

Roxboro Savings Bank is a 97-year-old mutual. We have \$245 million in assets. I guess as a point of reference, we were at \$224 million in assets when we last had an opportunity to meet

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in person in the fall of last year.

Person County, where we're located, has a population of 40,000 and counting. We are situated directly north of Durham County within the Durham-Chapel Hill MSA. In recent years, our business has really benefitted from rapid growth in the triangle region and steady economic activity within the rural markets that we serve.

Resilient is the best way to describe our customers as they continue to persevere in spite of the COVID-19 crisis. In response to the pandemic, we have implemented a payment deferral program, waived late fees, and eliminated time deposit early withdrawal penalties. The percentage of our portfolio in deferred status peaked at 7.3 percent in May and has retreated to a modest 2 percent at present.

The safety of our staff and customers has been our top focus, our top priority. We have modified operations to promote social distancing while still delivering a full range of

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products and services. As many of you have stated earlier, the use of our online and mobile products has never been greater.

Launching our online mortgage application portal in January has proven especially fortuitous, given the demand caused by the drop in rates to historically low levels. The majority of our unprecedented year-to-date mortgage production has been concentrated in secondary market eligible loans, refinances in particular. Volume through the first half of 2020 is up 83 percent over last year, and revenues have nearly tripled over the same period in 2019.

We retain servicing on all of the mortgages we originate. In addition to loans held in portfolio, we do service loans for Fannie Mae. We are currently servicing over \$63 million in loans sold on the secondary market, with retained servicing. And that is a 15 percent annual increase in the size of that segment of our portfolio.

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Reducing housing costs for our customers has been rewarding on many levels. Deposits have surged this year. Unexpectedly, we have achieved 878 percent of our budgeted deposit growth. Finding ways to deploy this surplus of funds in a manner consistent with our mission and business model has been challenging.

One successful effort has been offering unsolicited refinance proposals to local governments and related entities in an effort to help them reduce the cost of their existing debt. This initiative has resulted in nearly \$4 million in new loans. And by our projections, we'll deliver combined interest savings of nearly \$500,000 over the life of these new facilities, helping to minimize some of the impact of loss in sales and use tax revenues in our communities.

Margin compression, I know I sound repetitive here, but margin compression, as so many of you have stated before me, is a pressing concern. It's our biggest concern long-term,

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aside from the immediate concern of the pandemic.

The Fed's move to the zero lower bound in March adversely impacted our asset-sensitive balance sheet. Mortgage loan originations, and to a lesser extent securities gains, have more than offset the loss in interest income in the near term. But we know that the decline in our spread will eventually result in lower profits.

Gathering low-cost deposits -- continuing to gather low-cost deposits, solidifying consumer relationships by offering responsible assistance through this crisis, and strategically investing in technology are the foundations of our plan to position the bank for success going forward.

Credit quality, I'm pleased to report, at our bank and really amongst all of our North Carolina peer banks, for the moment anyway, is excellent. Last quarter, we suffered no losses, made a qualitative adjustment to our allowance at the end of June due to deteriorating economic

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data, especially unemployment that spiked at over 11 percent in May. The resulting provision was double the amount we had set aside the prior quarter, which was itself larger than what we had set aside in quarters last year and back to 2018.

Our customers are resilient, as I mentioned, but we do anticipate a rise in problem loans if the pandemic persists beyond the fall. The interagency guidance on loan modifications issued in March allowed us to quickly implement our deferral program, and the subsequent guidance issued in June regarding safe-and-sound credit practices as the pandemic continues to unfold gives us confidence that we can constructively work with borrowers to minimize loss and continue to be a reliable source of credit in the communities we serve.

I applaud Chairman McWilliams and everyone in the regulatory community for being so proactive to provide supportive regulations such as this guidance. It's invaluable, it's

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appreciated, and it allows us to focus not so much on how will this be interpreted during our next exam and just focus on our customers and how can we provide them the most relief possible.

Mission creep by credit unions and the uncertain impact of GSE reform upon smaller mortgage providers and originators such as Roxboro Savings Bank are potential threats to our business. We are actively participating in advocacy efforts to address these concerns.

Thank you for listening, look forward to the rest of the program.

MR. DAVIS: Thanks, Keith. Mark, I believe you're back on, so you're up.

MEMBER PITKIN: All right, can you hear me okay?

MR. DAVIS: Yes, we can, thank you.

MEMBER PITKIN: Wonderful. Sorry I missed my turn, I was having some technical difficulties, but I believe I've got it taken care of. So good afternoon and morning, everyone,

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my name is Mark Pitkin, President and CEO of Sugar River Bank in Newport, New Hampshire.

As others, I wish to thank the FDIC and especially Chairman McWilliams for her refreshing and positive outlook on community banking, and also for providing the opportunity to learn and share about community banking across the country.

Sugar River Bank is a \$335 million dollar mutual institution. We've got six branches spanning from the west to the central part of the state. And I'm pleased to report, as some others, that we are celebrating an anniversary this year. It is our 125th.

So unfortunately we had big plans, we had a number of customer appreciation events, which we've had to put on hold due to safe distancing, but we are doing our best to make sure we incorporate our customers in other type of social distancing events.

We are very fortunate that New

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Hampshire has fared very well in comparison to other states in the U.S., and our unemployment levels, while certainly still elevated, have dropped significantly since the beginning of the pandemic. Our restaurant and lodging establishments were hit the hardest, as in most places of the country, while most local manufacturers continued to operate successfully as essential businesses.

Multifamily properties in our area have also continued to successfully navigate through the crisis, with little if any disruption in rent collections. We, like most banks in the state, closed our lobbies and operated out of our drive-up facilities and through electronic means for several weeks. Employees and customers alike were very supportive and understanding.

Many employees were relegated to working remotely, which required a very short learning curve and much support from the staff to enact our pandemic plans. We did reopen our

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lobbies on June 1 based upon the Governor's allowance to do that and we now require masks in all public areas. All but a few employees are now back on site and all is going well.

It is worth mentioning that during the early stages of the pandemic, the bank was scheduled for both a risk and a compliance examination and we concluded the last part of those two examinations on June 30. So I would say that our executive team was very pleased with the flexibility, understanding, and the support of both examination teams. We were all in the same boat learning how to successfully conduct an examination 100 percent remotely.

I am very pleased to report that the process went surprisingly well, on both sides, and was a great learning experience for all. I congratulate both my staff and that of the EICs for their monumental efforts during a once-in-a-lifetime examination event.

As most FIs would attest, our 2020

business plan drastically deviated from its original course with the onset of COVID-19. And while net interest margins have contracted more than projected, the bank has witnessed one of the largest increases we have ever seen in our loan pipeline in nearly ten years. So as of June 30, we nearly surpassed the closed mortgage volume for the entire year of 2019.

The volume in most areas of New Hampshire has been bolstered by a strong purchase, refinance, and construction market. Residential construction lending in particular has been very strong as real estate values are increasing throughout our markets, and new housing inventory remains low.

On the commercial side of the house, I am pleased to report that 23 percent of all loans closed through June 30th were PPP loans granted to small local businesses. With only two commercial lenders and certainly the help of many others throughout the organization, we were able

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to originate 10.3 million in PPP loans to 240 small businesses, saving approximately 1,420 jobs.

As a community bank, there was no loan request that was too small. Our average loan was 43,000, and the range was from a high of 578,000, to as little as \$256. Excuse me. Despite the onset of the pandemic and concerns of struggling borrowers, the bank's asset quality remains strong.

While available to anyone in need, the bank granted a total of 50 loan deferrals, representing 5.3 percent of the total loan portfolio, many of which have come out of forbearance successfully. Adversely classified assets to capital, nonperforming assets, and delinquencies remain at historic lows, which is indicative, luckily, of most banks in New Hampshire.

We continue to successfully partner with fintechs -- Bank Alliance and Lending Club,

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to name a couple -- to diversify our asset base, and we are consistently looking for additional partnerships to strengthen operations and customer relationships.

The bank also experienced significantly more growth in deposits than projected, due to the consumers or more consumers staying home and cutting back on spending and the inflow of PPP loan deposits and stimulus funds.

Total deposits increased by 15 percent through June 30, which represented approximately a 14 percent variance from budget. With the inflow of anticipated deposits coupled with a strategy to bolster our liquidity to historic highs to prepare us for the pandemic and beyond, our cash balances grew by 240 percent from year-end 2019.

Despite the growth in the balance sheet over the last few months, the bank's capital, as well as most banks in the state of New Hampshire, remains very strong, and we are at

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approximately 14 percent.

Continued challenges for the bank include recruiting talent in certain roles, primarily lending and investment services; keeping up with increased complexities of cyber security; and managing the acquisition and development of new products and services.

In conclusion, while the circumstances surrounding the pandemic created an operational environment unlike anything we have ever seen, the bank has successfully persevered due to our amazingly resilient staff and our supportive customers. So with that, I'd like thank you all for allowing me the opportunity to share what's going on at the bank and in our market area.

(silence)

MEMBER GETZLAFF: Can you guys hear me this time?

MS. GRECO: Hi, Sarah, yes, we can hear you.

MEMBER GETZLAFF: Okay, perfect. I'm

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Sarah Getzlaff, I am the CEO of the Security First Bank of North Dakota, a \$200 million family-owned bank in Bismarck, North Dakota and a few surrounding very rural communities.

First off, I'd like to thank Chairman McWilliams and everyone else from the FDIC for the opportunity to be on this committee. As everybody has mentioned, this spring has really just been a whirlwind for all of us.

I went to a conference in Florida at the beginning of March, and I flew back the same day the Governor of North Dakota shut down schools. And so on that day I added teacher to my resume for two elementary children. And three days later, we closed our lobbies and made decisions faster than we've ever made them before to get everything up and running and functioning so we might be able to assist our customers just as before.

And five days after that, we started our very first fully remote FDIC exam. Throughout

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the exam, every single person we worked with at FDIC was absolutely amazing. They were flexible, understanding, respectful of our time, and so I'd really like to thank every one of you for making that process so flexible. I know that the tone was definitely set at the top, and all of you had a big part in that.

We went straight from our FDIC exam into PPP loans, with all of us working around the clock to authorize and fund PPP loans in addition to home schooling and taking on all sorts of other roles that we didn't even know existed at our bank.

But as Alan mentioned earlier, going through this pandemic process and being able to focus on helping keep our customers' businesses alive through PPP loans really pulled our team together and it was really kind of a silver lining that they gave us something else to focus on.

We funded about \$8 million in PPP loans. We didn't turn anybody away, customer or

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not, we funded every single loan. We also processed about \$17 million in loan deferral requests. A lot of those probably didn't need it, but they were just trying to be proactive and felt that that gave them peace of mind. It was kind of the least we could do, and most of them will pull through just fine at this point.

At this point, we are totally reopened. We reopened on May 18. And North Dakota in general is really open for business, but we are just starting to see kind of a peak here. Today was our biggest day of cases in this county so far, so I guess we'll see what happens.

But, I'm honestly really hoping I don't have to add a kindergartner to my home schooling roster this fall. So fingers crossed that schools can open, and I think a big part of that is that if schools can open somehow, then parents can get back to work and our economy can grow stronger overall.

Since year-end, we've grown \$12

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million. Eight million of that was from PPP loans, but we honestly already have enough in our pipeline to replace that 8 million, and this growth has been really surprising for us, partially because of the pandemic, but also because we're in such a hyper-competitive market.

We've had a lot of financial institutions move into our area, and we've seen some really, really low rates. We just saw a credit union offer one of our customers a 1 percent fixed-rate loan on a million dollar commercial building that they were actually in the process of foreclosing on. I mean, that's something, along with the pandemic, that I never thought we would see.

And with all of this local pressure that we have on rates and the uneven playing field that several have mentioned already with credit unions and farm credit services and their tax advantages, the one thing that I would like to ask for help with today is an expanded moratorium

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on the ILC loophole.

As you all know, as a bank we're not allowed to mix commercial activities and banking. In exchange for that, we have FDIC insurance. We are also very heavily regulated.

And I guess to think that a company like, you know, Walmart back in the day, but now I think it's Rakuten is how you pronounce it, the Amazon of Japan, is trying to go through the ILC process. And it just seems unfair, but also just unthinkable, especially in a time when we're already dealing with a pandemic. And it feels like everything we're doing has additional risk and our commercial customers are at risk. It just seems like the wrong time to even consider adding an ILC. And so, I would like to ask for the FDIC to consider doing another moratorium on ILCs until Congress can take action and hopefully - hopefully they will take action.

At one of the very first ICBA conventions I ever attended, I remember being in

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this giant ballroom with thousands of people, and they were standing on their chairs clapping when Walmart withdrew their application and an initial ILC moratorium was put in place. But I remember thinking, oh, it's crazy that all these people get so excited about a piece of banking regulation.

But I'm honestly hoping, A) that we can get together in a room with thousands of people again this spring, and that B) we'll all be standing on our chairs cheering for this ILC loophole moratorium.

And with that, I would just like to thank you again for your time.

(silence)

MS. OLESIUK: Hello, everyone, this is Shayna Olesiuk from the FDIC, and I will just briefly summarize some of our views. I think my, my main reaction to hearing all of you is that our views are very consistent with much of the information that was shared today.

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Clearly, we are in a recession and have seen significant job losses across the country. We saw 23 million job losses in March and April of this year and we have seen some recovery in May and June, primarily in the leisure and hospitality sector as well as retail trade.

However, despite those gains, we are still in a net loss position for the economy overall and across industries. So we certainly have considerable concern about the state of the economy and the elevated unemployment rates that many of you mentioned as well today.

Looking across the regional data, the job losses have been concentrated in the northeast, where the virus hit first and was significant in the early days of the pandemic, as well as tourism-concentrated states such as Florida, Nevada, and Hawaii, as well as the Great Lakes region, with the hard-hit manufacturing sector.

So, as far as what consensus forecasts

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say for what we expect throughout the rest of the year, many economists are saying that the recession, at least from a technical standpoint, is already over and we'll begin to see hiring resume and output beginning to grow in the second half of the year. Of course, there is still significant uncertainty and the possibility of another wave of the virus and continued economic weakness.

So with that, I will turn over the floor to Frank Hughes and John Jilovec, who will discuss some of our key risk areas, commercial real estate, and agriculture.

MR. HUGHES: All right, thanks, Shayna. Can everybody hear me?

MS. OLESIUK: Yes.

MR. DAVIS: Yes, we can hear you.

MR. HUGHES: Okay, great, great. So I'll go, I know we're well over time, so I'll go pretty quickly. Just to echo Shayna's comments, I have a lot of the same comments that we're

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hearing from the bankers around the country.

And just by way of background, the New York region covers states from Maine to Maryland. We also supervise banks in the District of Columbia, Puerto Rico, and the Virgin Islands.

And as Shayna mentioned, the New York region really was the center of the COVID-19 outbreak, which significantly impacted our institutions. We've had numerous temporary branch closures throughout the region, and not surprisingly, the states in the New York region were among the first to close, affecting consumers, small businesses, retail, hospitality, etc., which are important customer lines for our banks.

Prior to the pandemic, the region had higher concentrations of commercial real estate than other parts of the country, with concentrations especially prevalent in the multifamily sector. And banks in the New York region also shared less on balance sheet

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liquidity.

So as a result, a lot of our supervisory activities really were focusing on risk management practices related to both those areas during our exams, visits, and outreach events.

So not surprisingly with respect to CRE, we are seeing some weaknesses in the market. Although overall rent collections did improve in June and July from May lows, there are still areas showing material weaknesses, particularly, as previously mentioned, in the retail and hospitality sectors.

The industrial space segment is also performing well, with close to 100 percent of typical rents received in July. Conversely, the commercial mortgage-backed security delinquency rates for lodging and retail sectors not surprisingly increased in June, with delinquency rates in excess of 15 percent for these sectors.

So just as a quick example of the

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pandemic's impact on the hospitality sector, here in New York City the hotel occupancy rate was recently, was 36 percent recently, significantly below the 89 percent level we saw for the same period last year. But in the good news, up from the low of 18 percent that we saw early on in the pandemic.

On the multifamily front, I mentioned we do have concentrations in our region of multifamily. We are seeing some signs of weaknesses. Full rental payments have declined from last year's levels a little bit, and they've declined even from last month's levels.

So even though the declines are small or not material at this point, I think for properties with lower initial debt service coverage ratios, these differences could be material and we'll have to watch that trend too to see what happens on the multifamily front.

And additionally, the community housing improvement program members, which

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represents owners and operators, more than 400,000 rent-stabilized units here in New York City, said that almost 25 percent of New York City's rent-stabilized renters did not pay rent in June. And then furthermore, more than 10,000 apartments were listed for rent in Manhattan in June, an increase of 85 percent over last year. So a significant increase.

Now, this stat is interesting. The official vacancy rate hit a record 3.67 percent, so still small, but still a record. But we're hearing that brokers are saying that those vacancy rates may be far higher in some other buildings in the New York City area.

And definitely seeing strong incentive for renters to stay or to move into buildings. And anecdotally we're hearing that residential real estate outside our major metropolitan areas here in the northeast are in high demand, which I think aligns with some of the comments that were made earlier.

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I mentioned liquidity previously. Just confirming what we've heard from many of you. Deposits have increased significantly, whether that's due to stimulus checks, increased savings, decrease in consumer spending, PPP funds, etc., we're certainly seeing liquidity across the region as a whole increasing.

So really in general, our banks entered the recession here in the New York region in overall strong condition, with increasing levels of capital, strong asset quality metrics, and satisfactory risk management practices.

Earnings have always been a challenge for banks in the New York region. We've historically had lower than national median return on assets and net interest margins. And much like many of you have already said, we're seeing earnings continue to feel pressure from provisions for credit losses, both in the first and second quarter, and net interest margin compression.

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So really I'll just sum it up and turn it over to John. But so in summary, you know, the initial outbreak did have a significant impact on the region and we're continuing to see that impact in the industry and metrics related to particularly CRE and multifamily vacancy rates and performance.

As I said, liquidity levels have actually improved across the region, while earnings remain a challenge. And as noted, banks in general here in the New York region are entering the period of economic uncertainty with strong asset quality metrics, increased capital levels and satisfactory risk management practices.

So with that, I'll turn it over to John Jilovec, who's the Deputy Regional Director for Risk Management Supervision in our Kansas City region.

MR. JILOVEC: Thank you, Frank. The story with agriculture is not limited to the

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pandemic and 2020 and what has occurred in 2020. Agriculture enjoyed what we refer to as a super cycle that really ended in 2013.

So the decade between -- excuse me, 2003 and 2013 is that period where it was very prosperous for the Ag sector. So they really didn't experience the last downturn in the economy that began probably in 2007 and was more or less concluded by 2012.

As I said, it ended in 2013, and that's when commodity prices have been, really took a turn for the worse. And they've been depressed since then, with periodic spikes that savvy marketers were able to take advantage of.

But overall, it's been a depressed overall commodity market for whether it be wheat or soybeans or corn or cattle or swine, it's been depressed really in almost all those markets generally speaking since the conclusion of 2013.

The pandemic has added challenges to almost all areas of agriculture in my part of the

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country, which is basically the upper Midwest. And some of the issues the pandemic has thrown at us are supply chain disruptions, restaurants, schools, and other commercial enterprises that would order their product in bulk.

So they would order, you know, a whole side of beef or an entire hog, and it's packaged as such. It was not meant for the retail distribution channel. And so the packers had to really, or processors had to figure out how to revise their supply chains to get more of that product to the grocery stores instead of to restaurants and commercial enterprises, restaurants, etc.

Additionally, the processing plants were hit with various COVID-19 cluster infections whereby some plants had to close periodically to clean the plant and to basically re-engineer their operation to create more space between the employees.

At one point, beef and pork processing

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was down 40 percent year over year. And so, really, there was a greatly diminished processing capacity that was due to either plant closures or because of some of the re-engineering where you couldn't have as many people in the plant at one time.

Additionally, the reduced gasoline use that occurred throughout the United States and throughout the world, I guess, had an impact on agriculture because 40 percent of U.S. corn is used by ethanol producers and ethanol is blended into gasoline. And so that also impacted the price of the corn commodity. So all of those things were negatives.

Now, there are many, many positives as well. There are tremendous government support programs that -- they've existed historically to support the agriculture industry. And as an example, in 2017, farm support payments comprised 15 percent of net farm income. That's 2017, 15 percent.

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In 2018, that number increased to 16 percent, and it's estimated right now that the 2019 contribution of government support program payments will be 25 percent. So 25 percent of net farm income. So incredible support.

And that support continues in 2020 as well. There was an additional \$16 billion included in the CARES Act to support agriculture and a lot of that has already been distributed. As an example, 2.5 billion through July 20, through last, I guess a week ago Monday, had been distributed to producers in the Kansas City region. So the seven-state footprint that comprises our FDIC region, 6.2 billion throughout the United States.

And another positive is, and this is the tremendous positive that has really kept the Ag economy going, is that farmland values have remained incredibly resilient. Low interest rates, the government support programs, and various other factors have enabled a lot of

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producers to, and bankers to continue with their producers through a very distressed farm economy.

However, we are now seeing the seventh year of depressed commodity prices, and some producers during the last seven years have burned through a substantial portion of their equity. Or they now have debt levels through carryover operating debt for which their asset base simply cannot service in a normal operating year. So that has forced some producers to make some changes.

It also has resulted in an increase in Chapter 12 bankruptcies. Chapter 12 is unique to the agriculture industry. I'm from Iowa, not too far from where Ms. Messerschmitt resides, and in -- excuse me, in a year-over-year period, April 2019 through March of 2020, there were 37 Chapter 12 bankruptcies in Iowa. And that number is, is roughly, well, I'm not sure what the percentage is, but it greatly exceeds the typical. The average between the 2001 and the 2017 is eight

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Chapter 12 bankruptcies on an annual basis. So eight is the average, 37 in the last 12-month period, ending March of 2020. So the number has grown significantly.

However, you have to keep in mind that there are 85,000 farms in the state of Iowa. So 37 bankruptcies out of 85,000 farms, you know, is really a nominal amount. Throughout the United States, there were 627 Chapter 12 bankruptcies in the year ended March 30th. That number was 353 in 2015. So you know, it's almost double during the last five-year period. But keep in mind also that there are over two million farms throughout the United States. So you know, although it increased from 353 in 2015 to 627 last year, you know, out of two million farms, it's still, I don't want to say insignificant, but it's a nominal amount.

We also are seeing increasing loan delinquencies in Ag banks. And Ag banks as defined by the FDIC are banks that have either 25

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percent of their total loans in production loans, 25 percent in Ag -- secured by Ag real estate or the combination of those two.

And so we are seeing an increase in delinquencies. And our levels now, or I should say as of the end of March of 2020, are similar to where they were in 2004. So, and it's still relatively low.

I mentioned the Ag super cycle and the fact that it ended in March of -- or excuse me, in 2013. In March of 2013, the median delinquency of an Ag bank was 0.13 percent. So relatively low. It remains low. It's increased quite a bit, but it remains low. As of the end of the first quarter of this year, it was 1.05 percent. So the increase during that seven-year down cycle only was from 0.13 to 1.05.

And we're also seeing an uptick in adverse classifications, but most banks are doing a great job in managing their portfolio and working with their more distressed producers by

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either restructuring their operation; working with the producer to help them identify opportunities to reduce expenses; making changes to their asset base, such as selling equipment that might have a limited use, maybe even reducing the size of their footprint by selling various parcels of real estate; and/or obtaining off-farm income to, to really supplement family living expenses.

And as a result of you bankers working with your producers, those that are in the Ag space, there really is no discernable trend in the number of problem banks or banks that are rated less than satisfactory within our region. And when I say we're kind of Ag central from an FDIC perspective. Roughly 65 -- 60 percent of our banks meet that definition of an Ag bank.

And we ended the first quarter of 2020 in as good a shape from a banking perspective as we've been in for quite some time. And some of the factors that Frank mentioned, such as the Ag

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banks have generally fairly well capitalized, and they've maintained a good, solid allowances to deal with the problems that they encounter. They have fairly good earning spaces. And so I think that's a reflection of your hard work and the Ag bankers' hard work.

And so despite substantial headwinds, the overall condition of Ag-focused banks remains relatively healthy. And you know, the likelihood of that continuing will in part depend upon I think continuing government support, favorable yields, the crop. As it was mentioned by the gentleman from Kentucky, the crops look fantastic throughout our footprint. And then hopefully at some point, we'll get increased commodity prices when some of the trade issues are resolved and various other variables come into play.

With that stated, that concludes my remarks, thank you.

MR. DAVIS: Great, thank you, everyone. We are - just a couple things to flag

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everyone. We're going to take a very short, five-minute break until 3:10. And then at 3:10, we're going to move to the update from the MDI subcommittee. So Gilbert, just a heads up that you'll be up when we come back from the break.

We're going to hold-off on the rapid prototyping segment for now, and if we make up some time, we can cover it then. Thank you, and we'll see you in about five minutes.

(Whereupon, the above-entitled matter went off the record at 3:06 p.m. and resumed at 3:11 p.m.)

MR. DAVIS: and Betty Rudolph, the FDIC's National Director of Minority and Community Development Banking, are going to provide us an update on yesterday's meeting. So, Gilbert, I see you on camera there so I'll turn it over to you. Thank you.

MS. RUDOLPH: Chad, is (Speaking simultaneously). No, go ahead.

MEMBER NARVAEZ: I think you're going

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to start if off, right?

MS. RUDOLPH: Yes, I'll get started.
Thank you, Gilbert.

Just a couple of brief introductory remarks, before Gilbert summarizes what the committee has been doing.

The MDI Subcommittee serves as-- under the authority of the Advisory Committee on Community Banking and so it does report to you all, to the CBAC, not to the FDIC. And that's why we're reporting out today to keep you apprised of what we've been doing.

The goal, the goals of the Subcommittee are to serve as a source of feedback for the FDIC on strategies that we take to fulfill our five statutory goals for the program, to provide a platform for MDIs to promote collaboration, partnerships and best practices, and to identify ways to highlight the work of MDIs in their communities.

The Subcommittee is comprised of nine

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MDI executives, and they represent a broad cross section of all of the types of MDIs -- African American, Asian, Hispanic, and Native American, and they have a range of business models, size, and geographic mix.

The nine members of the MDI Subcommittee represent about 10 percent of the 96 MDIs supervised by the FDIC. And, in addition we have three MDIs that serve on the CBAC. Those include Kenneth Kelly, Dick Beshear, and Gilbert Narvaez, Jr.

Just want to share a couple more points of background before I turn it over to Gilbert. The MDI Subcommittee had its inaugural meeting in December of last year and then, as Chad said, we just met yesterday as well.

At both of these meetings, one of the key topics of conversation was an update to the FDIC's policy statement regarding minority depository institutions, and this policy statement signals the FDIC Board's commitment to

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fulfilling our statutory goals and to promote MDIs, and it provides the framework for our program across the FDIC.

In your packet of materials, you all had a copy of the FDIC's proposed policy statement update that we presented yesterday with the Subcommittee, as well as a red-line version. And we wanted to update the policy statement to reflect the FDIC's strengthened commitment to this important segment of our banking system.

So, Gilbert Narvaez will now walk you through some of the key changes of our discussion.

MEMBER NARVAEZ: Thank you, Betty.

The FDIC asked for our feedback on the policy statement that governs the MDI program. And today we want to share some of our feedback and hope that you will consider supporting our recommendations to the FDIC. There are three key changes to the policy statement.

The first one is, there's a new engagement section that discusses the many ways

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that the FDIC engages with MDIs. The new feature is to include the MDI Subcommittee as one of these engagement activities. That's a key change.

Second, the second new requirement is to measure the MDIs program effectiveness. The FDIC will conduct an annual survey of MDI executives to receive feedback on the effectiveness of the program activities such as technical assistance, training and education, and outreach. The policy statement now includes definitions for each of these activities.

We had the opportunity to review the results of the 2019-20 survey results, which showed the FDIC met 11 of the 12 goals for effectiveness of program activities. The overall combined satisfactory rate for MDI executives was at 88 percent.

The third update is to articulate the FDIC's examinations approach on how the FDIC considers an institution's unique business model, relative to examination standards. Under the

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uniform examination standards, the FDIC conducts all examinations within the parameters of outstanding guidance. Examiners measure the risk to the deposit insurance. They also take into account each bank's risk profile, size, sophistication, and nature and complexity of its business activities. The policy statement highlights that peer comparisons are not included in the rating system.

The MDI Subcommittee supports these updates to the policy statement. In addition, we provided feedback in December that the FDIC update its description of technical assistance program to highlight the ongoing nature of technical assistance that an MDI can request at any point in the exam cycle to better understand the regulations, FDIC policies, examination procedures, accounting practices, supervisory recommendations, risk management procedures and compliance management procedures.

The prior policy statement emphasized

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technical assistance provided 90 to 120 days after an exam. After our discussion, the FDIC clarified that technical assistance is a tool to provide ongoing support to institutions in an effort to insure timely implementation of recommendations, a full understanding of regulatory requirements and, in some cases, viability of the institution. Technical assistance is not a supervisory activity and is not intended to present additional regulatory burden.

We understand that the FDIC intends to present the updated policy statement for consideration at an upcoming Board meeting. If approved, the FDIC will then publish it in the Federal Register for public comment over a 60-day period. The FDIC Board would then consider public comments and consider a final vote on the policy statement.

The MDI Subcommittee believes that the FDIC should move forward with the strengthened

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policy statement regarding the minority depository institutions.

At yesterday's meeting, we also discussed the many recent corporate announcements of support for MDIs. These include a \$50 million commitment by Wells Fargo with direct investment in African American MDIs. A \$100 million commitment by Netflix to support MDIs in black communities. And a \$100 million commitment by Microsoft to support mission-oriented banks and several others.

The FDIC asked about various roles that they could play to help direct the support most effectively to MDIs. They developed the draft resource guide outlining the different types of assistance that MDIs might receive, including deposits, direct investment, grants, technical assistance, and more. Since many MDIs have different needs and corporations have different strategies for providing assistance, we support publication of this guide.

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This concludes the report from the MDI Subcommittee, and Betty and I welcome any questions you may have or any further discussion on these recommendations.

MR. DAVIS: Thank you, both. Do we have any questions from the committee members?

(silence)

Okay. While folks are thinking if they have any questions, I just remind everyone that we had sent information ahead of the meeting for the interaction between the Subcommittee and the Committee. So, what we are trying to do today is establish if there is a consensus within the committee to go ahead and move the recommendation to the FDIC.

We do not require any kind of a formal vote or anything along those lines. It will mostly just be based upon the results of the conversation. And, Keith, I see you have a question, so please go ahead.

MEMBER EPSTEIN: Thank you, Chad. I

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guess less of a question and more just wanted to express my support and appreciation. There's obviously a lot of time that's gone into this draft, and it's a pleasure to read and you certainly have my support.

MR. DAVIS: Thank you, Keith.

MEMBER EPSTEIN: While I have the floor, if I may, I do have one other quick question. I'm not too well informed in this area. The CDFIF, which I think is the funding source within the Treasury Department, it's my understanding that some of the programs, some of the financial support that they provide to minority deposit institutions and community development financial institutions can be considered capital or equity rather than just subsidized lending. And if that is, in fact, the case, is there any thought about making some of that capital funding, if you will, available to any prospective de novo minority deposit institutions? I mean, certainly as community

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bankers we want to support the formation of de novo institutions of all shapes and sizes across the entire geography of our country. But, in particular, since it seems a number of minority deposit institutions, you know, has not grown might that be something that could be explored?

MS. RUDOLPH: Hi, Keith. Thank you for that question. This is Betty again.

I think the CDFI fund actually deploys capital through the Bank Enterprise Program and Financial Assistance Programs and those require that the institution demonstrate that they have 60 percent of their activity and most of that is looking backwards, so I'm not sure if for de novos that's an issue. But that's a great question.

We have seen a few new de novo MDIs. And we had two open last year but I think that like community banks there's a continuing consolidation effort as well, as institutions try to create efficiencies through size and scale.

Thank you.

MR. DAVIS: Okay. Any other questions? Comments? Thoughts?

(silence)

Okay, it doesn't appear --

MEMBER KELLY: Chad, this is Kenneth. I would just say that, you know, I'm in full support of it. I heard you say we're not going to take an official vote. But I will certainly be in support of it.

MR. DAVIS: Thank you, Kenneth. And I see through the chat that we have additional support there as well. So, I think without objection from the Committee, I think that we can say that this satisfies a consensus of the Committee. However, if there are any other comments anyone wishes to make please do so.

(silence)

Okay. Hearing none, Gilbert, Betty, thank you. Now, we're going to move to an update on several supervision matters. Doreen Eberley, our Director of the Division of Risk Management and

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Supervision is on and I'm going to turn it over to her now.

Thank you.

MS. EBERLEY: Okay. Thanks, Chad. Hi, everybody.

It was really a pleasure to get to hear earlier today how you're faring through the pandemic, and we appreciate the difficulties you've worked through and how your operations have had to change and your understanding for how our operations have had to change.

Several of you mentioned having examinations and we have moved to an off-site basis. And, you know, some other things have changed as well. So, that's what we wanted to talk about today. We're going to talk a little bit about the interagency guidance that we issued on loan modifications fairly early in the pandemic. We updated that guidance again after the CARES Act was approved by Congress.

We're going to talk about some

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examiner instructions that we've issued for examining banks during a pandemic. We'll talk about the community bank leverage ratio. A little bit on appraisals, and some changes that we've made there, and some changes to regulatory reporting. And then we'll wrap up with a conversation about our small dollar lending guidance.

So, presenting today will be Rae-Ann Miller, the Associate Director who oversees the Risk Management Policy Branch and John Rieger, our Chief Accountant. They'll talk about appraisals, the recent examiner guidance relating to the pandemic, loan modifications, and regulatory reporting. Bobby Bean, the Associate Director of our Risk Management Supervision Capital Markets Branch will cover modifications to the community bank leverage ratio framework. And Leonard Chanin, Deputy to the Chairman for Consumer Protection and Innovation will talk about the guidance on small-dollar loans.

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So, I will turn the program over to Rae-Ann to kick us off.

Thank you.

MS. MILLER: Yes, Hi, Doreen. That was a great introduction, and our first slide is actually going to be covered, if you would advance the slide deck, Shannon, by John Rieger, our Chief Accountant. John?

MR. RIEGER: Thanks, Rae-Ann. I appreciate the introduction. And before I get started I really want to say I appreciate listening to the institutions. I'm busy with the accounting work, but I don't often get to really see how you guys are doing and it's encouraging to hear all the work that you are putting into it.

So, on this slide, I mentioned Financial Institutions Letter 36-2020 which was issued April 7th, 2020, and it's an interagency document on working with borrowers. The document offers direction both from an accounting

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perspective and from a credit risk reporting perspective.

We want institutions to work with the customers under the current conditions so we messaged that agencies will not criticize for prudent loan modifications. And we want examiners to consider the unique, evolving, and potentially long-term nature of this environment. We want examiners to consider -- these things, but we still need them to continue to assess institutions in accordance with existing policies and procedures. And they can provide supervisory feedback or downgrades on an institution's composite or component ratings when conditions have deteriorated.

Examiners will still consider whether institution management has managed risk appropriately, including taking appropriate actions in response to stresses caused by the COVID-19 impacts.

Now, examiners will be giving

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consideration to the challenges involved in assessing a risk and respond to the institutions in real time given the level of information available and the stage of local economic recovery.

Now, if you can move to the next slide, Slide 3, thank you.

Now, my work as the accountant, the current environment and the CARES Act created the need to provide some clarity on the interaction between the accounting standards and the CARES Act, Section 4013. Participating on supervisory views also includes instructions and guidance on past dues and on nonaccrual reporting. Institutions should not report those loans captured in Section 4013 as past due or nonaccrual in their current reporting.

So, if you move to Slide 3, I have a simplified illustration to help visualize what I'm talking about. Slide 4, excuse me. There we go. Yeah, my mistake.

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So, when you're thinking about the accounting under the CARES Act and under normal TDR accounting, there were two prongs or two methods that were made available. Financial institutions may elect to account for an eligible loan modification under Section 4013 -- you'll see that on the left side. Or within the interpretation of GAAP discussed in the interagency statement.

Under Section 4013, financial institutions are not required to apply ASC Subtopic 310-40 to the loan modification. In other words, the trigger of the TDR, if the customer is experiencing financial difficulty, which basically is if the customer is experiencing financial difficulty and the concession is granted. They do not have to report such loans as TDRs in regulatory reports. They do not need to determine impairment associated with certain loan concessions that would otherwise have been required for TDRs -- such as

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interest rate concessions, payment deferrals or loan extensions. They should maintain records of the volume of Section 4013 loans, however. And they should contain, should continue to maintain an appropriate allowance for loan and lease losses or allowance for credit losses as applicable.

And one of the conditions of the 4013, as you can see there, they must have been current as of December 31st, 2019. We have additional information on this in our supplemental instructions to the Call Report, which are available on the FFIEC's website.

Now, on the right side under the interagency statement, institutions may presume that short-term modifications made to borrowers affected by COVID-19 that are current on payments are not experiencing financial difficulties for purposes of determining TDR status. If modification is performed as part of the program, no further TDR analysis is required for each loan

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modification in the program. So, you see there's two paths you can go down. Under this criteria, the modification should be short term in nature, e.g., six months, and made in good faith basis in response to COVID-19. Borrowers were current prior to any relief, which means less than 30 days past due on their contractual payments at the time the modification was implemented.

So, these are the two paths. Now, I've been talking about the accounting perspective, but there's also risk management and regulatory risk rating perspective. Regulatory risk ratings or classifications is a separate and distinct decision from the TDR determination. Regulatory risk ratings remain governed by all existing guidance and policy for determining creditworthiness of borrowers, and the agency's examiners will exercise judgment in reviewing loan modifications and will not automatically adversely risk rate credits that are affected by COVID-19.

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Regardless of whether modifications result in loans that are considered TDRs, Section 4013 loans, or adversely classified, examiners will not criticize prudent efforts to modify the terms on existing loans to affected customers.

And with that, I'll turn back to you, Rae-Ann.

MS. MILLER: Thank you very much, John.

Hopefully everybody can see me and it's great - quote, seeing everybody today. Thanks for being here and I just want to echo John and Doreen's remarks about how we really enjoy hearing from the bankers. We'll be taking questions at the end. I should have said that at the beginning, but I really appreciated the comments and the understanding. We're all sort of navigating through this uncertain times and my group, John reports to me in Accounting but the other side of my house is general safety and soundness practices and policies, credit risk,

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corporate governance, emerging issues. But we also prepare the instructions for safety and soundness examiners. And just like you described your scrambling and issues with branch openings/closings, safety of your employees, we really had to come up with instructions and policies for how to do the examiners' work which is essentially dealing with bankers on an off-site basis. So, we really do appreciate all the cooperation and the comments. I think Pattie from Alaska, I think it was, mentioned -- I had to write it down. Safety and soundness was a bright spot in your year. So, I don't often hear that so I do appreciate all that.

Shannon, if you'll advance to slide Number 5, please.

We're going to talk a little bit about this piece of guidance that we issued to examiners. And one of the speakers, I didn't take down the name, at the end of the presentation earlier today, mentioned this - and really read

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it and I think took it to heart because some of your comments, with -- that's what we were trying to telegraph here. And so this is instructions for our examiners on how to examine during a national emergency like this. It's an interagency piece of guidance. It's not for the banks. You know, there's no action required on the part of banks. But we wanted to make sure that we were consistent across the agencies in our philosophy and within the regions and local offices that the message was received on, you know, how deeply this event is reaching into our communities and how examiners should review that.

Now, we do have experience with this on a smaller scale. We have issued similar guidance documents to our examiners in hurricanes, if you remember, I think it was last year, perhaps two years ago, we had a significant hurricane season in Puerto Rico, for example. And there were a number of dislocations, physical dislocations as well as damage to physical

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properties that were out of banks' control. And so, how do you examine in that type of situation? But this is obviously a much broader impact.

And in those types of guidance documents to examiners and in this one we acknowledged that there are exogenous factors that can hurt institutions even when they're doing whatever they need to do to try and correct the situation and manage the situation. They have good risk management practices. So that was sort of the idea and that sort of sets the table on this Slide Number 5.

So, moving to the next slide, please, Shannon, Number 6.

So, the examiner instructions basically tell examiners to look at the evolving and long-term nature of the pandemic. And I wanted to point out that we will continue to assess institutions in accordance with our existing policies, our practices. As you know, we have a rating system, an interagency rating system that we use for

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safety and soundness. It is the CAMELS system, otherwise known as UFIRS. And somebody mentioned earlier in the presentation, the banker presentation, that they were pleased to have the recognition of examiners recognizing risk management practices. And so all the UFIRS components have not just conditions but risk management practices. And risk management practices go both ways.

So, you could have a situation where a bank has loose risk management practices but financial conditions are still good because, you know, we're in a boom situation or time hasn't passed for bad practices to run through the institution. And, conversely, you could have a situation where we're faced with for many institutions now where there are very good risk management frameworks in place, but out of the control of institutions, this factor hit in. So, there are both of those things to look at when we assess and rate an institution. Risk management

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goes both ways.

Shannon, advance to Slide Number 7, please.

So, the guidance and it's -- I encourage you if you have not read it already to please to do. It will give you a sense of what to expect and we're looking at, again, risk management. We are looking at, you know, what are the bank's plans to right problems? I heard a lot of the things that we would be looking at, working with borrowers, working on your operational issues. You know, making sure we take care of our employees as well. Our examiners are going to recognize those efforts and recognize the challenges that institutions have in trying to work with sometimes opaque information or uncertain projections.

We heard an institution talk about a branch that was opened and that needed to be closed again. So, being flexible with those types of give-and-take situations. And as always the

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last bullet on that slide is, you know, we're going to be looking at complexity, risk profile, business model, business focus of customers. Location is an issue now. I think our banker from Vermont mentioned, you know, it is a tourist area and certainly the economic recovery will really hinge on those folks coming back and enjoying Vermont and those businesses.

So, that's the basic focus, is focus on risk management, focus on risk assessment and plans to deal with the situation and understand sometimes they're doing that with a void in the information.

And with that I'm going to turn it over to Bobby Bean to pick up the next slide.

MR. BEAN: I hope everyone can see and hear me. About the time that we decided to discuss policy initiatives, the power went out in Falls Church, Virginia, so I am running on short power supply. And if I start sweating, it's not that I'm telling a fib it's just the AC also

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doesn't work as well as the computer power.

So, I'd like to this afternoon talk a little bit about the community bank leverage ratio. As you know, the agencies issued the rule the latter part of last year with an effective of the first quarter of this year. Actually, they, yeah-- so, as we went into this year the last quarterly filing we had actually 39 percent of all eligible institutions, about 1,710 institutions, elected to apply the community bank leverage ratio. So, about 40 percent, being the first quarter that this was available it was encouraging, the number of institutions that chose to apply the CBLR.

As you know, with the CARES Act, there was a modification made to the CBLR that allowed the agencies to drop the required CBLR down to eight percent for the duration of the pandemic. So, the agencies, we were concerned a little bit about the temporary nature of the drop especially since once the leverage ratio, once the national

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emergency was declared lifted, the CBLR ratio would jump immediately from 8 percent to 9 percent.

So, on August the 23rd, we issued two interim final rules into the community bank leverage ratio.

If you could move to Slide Number 9, please.

The two IFRs made kind of contemporaneous changes. The first IFR basically moved the CBLR to 8 percent beginning in the second quarter, consistent with the CARES Act. Under the CARES Act, it would be 8 percent through the remainder of the year unless the emergency declaration ended earlier, in which case it would move back up to 9 percent. So, we issued one CBLR that would implement that provision. And the second IFR we issued actually changed the agencies' transition period for the CBLR. It laid in place the eight percent leverage ratio for the remainder of 2020. It moved the CBLR to

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8.5 percent for 2021, and then beginning in 2022, it would go back up to 9 percent for all periods after that. We thought this was important for institutions to be able to appropriately capital plan. We were concerned about a drop in the leverage ratio followed by a sudden rise and this way, it allows institutions to kind of foresee, you know, potential losses and to plan to build back up the CBLR gradually over a two-year period of time.

The comment periods, we asked for comments on both of the interim final rules. We got a grand total of one comment that supported the interim final rules on the CBLR and we -- and if you look at Slide number 10, you know, the agencies, we plan to kind of move forward with, you know, the CBLR as we have indicated.

When we take a look at the number of institutions that are below 9 percent -- those institutions that could apply the CBLR on a first-time basis below the 9 percent ratio, it picks up

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about, only about 480 institutions. The majority of institutions that apply the CBLR already have ratios well above 12 percent. So, you know, if we expand the scope of the CBLR by the drop from 8 to 9 percent, like I said it's going to move the number of institutions that would be eligible at 9 percent, which is about 4,385. It will move the number to approximately 4,980. So, most institutions less than \$1 billion, most institutions have a leverage ratio that's well above the 9 percent, let alone the 8 percent number.

Anyway, so I will turn it back over to Slide Number 11, whoever is going to be covering the appraisals.

MS. MILLER: Thanks, Bob, that would be me.

So, I'll be very quick with the next couple of slides. They're talking about some appraisal issues that we dealt with and pretty soon after the pandemic, you know, there was a

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number of different issues obviously we were dealing with. But we started getting questions about appraisals and evaluations and the restriction of movement of those individuals and some jurisdictions were even talking about perhaps making appraisers essential employees. And, you know, that's a jurisdictional issue in states. But, we certainly did hear those concerns.

And so we did two things on an interagency basis. And this, Slide Number 11 deals with the first thing that we did which was to issue an Interim Final Rule creating a temporary provision to our appraisal regulation that allows institutions to defer an appraisal for a federally related transaction, for most transactions -- acquisition, development and construction loans were not included in this temporary deferral process. And we wanted to make sure we got this out quickly that we certainly didn't want an appraisal issue to be a

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hold up on getting capital into the hands of borrowers.

The IFR expires on December 31st. We do have the option to extend it and I should point out, before I move from this slide, is that part of the IFR mentioned that examiners will be looking to make sure that institutions have made some effort to obtain some type of value process either based on existing information, information available electronically or otherwise available to the institution.

So, let's move to Slide Number 12, please, Shannon.

And the second thing that we did on the same day was we issued an interagency statement that talked about some of the existing flexibilities in regulations. We touched on, even though they're not our regulations, we did touch on some temporary changes to Fannie Mae and Freddie Mac, the enterprise appraisal standards. They made some changes almost immediately based

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on the physical limitations on appraisers.

And then we also talked about some of the flexibilities available in USPAP and in our existing regulations. And so for instance, while property inspections are certainly customary and are often required by the bank and it's just good practice to do so, especially for more complicated properties. USPAP actually does not require a physical inspection and so that was something that we wanted to make sure people were aware of and clarified that for them.

And then we also talked about some of the existing flexibilities in our exceptions for our appraisal regulations. So, for residential real estate you may know that federally related transactions are already exempted from the appraisal requirements if they are less than \$400,000 and they're also exempted if they are eligible for sale to the enterprises or otherwise government guaranteed. And that is a very big exemption on the resi side. And on the commercial

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side, as you might remember we just recently raised the threshold on the commercial side. They just recently, it's probably 18 months ago now, but to \$500,000 for commercial transactions.

So that was our statement and I'm going to turn back over to John, our Chief Accountant to discuss some Call Report revisions.

John?

MR. RIEGER: Thanks, Rae-Ann.

Turning to Slide 13, I just want to cover a few revisions on Call Report instructions that have taken place in response to the COVID-19. So, on July 10th, 2020, the FFIEC issued information regarding the June 30, 2020, Call Report to include revisions associated with several of the interim rules and a final rule issued by one or all of the agencies in response to the impact on the financial markets and the strains on the U.S. economy as a result of COVID-19.

As you can see at the bottom, that's

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the Financial Institution Letter 69-2020 if you're interested.

So, moving to Slide 14, I want to focus on some specific new data items that have been included as a result of the CARES Act. So, these new items will take effect for the June 30, 2020, report and they also cover capital rules issued on FIL 10-2020, which was dated February 18, 2020.

So, what these new items are, and you can see them on Slide 15, eligible loan modifications under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the 2020 CARES Act will need to be disclosed in the Call Report. Now, they are collected on a confidential basis. So, I just want to emphasize that. They're in the Schedule RC-C, Part 1 Loans and Leases and the Schedule RC-M, the memorandum to collect data on.

In addition to those, there's a requirement to include the SBA Paycheck Protection Plan information, the U.S. Small

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Business Administration Paycheck Protection Program Loans and the borrowings under the Federal Reserve PPP, which is the liquidity facility, which is the PPPLF, on it.

In addition, there is, they're collecting information. If you use the, what's called the MMLF, the Money Market Mutual Fund Liquidity Facility and specifically RC-C Part 1, Memorandum 1, Schedule RC-N Memorandum, Item 1, these all relate to the 4013 Loans, Schedule RC-O, Memorandum, Item 16. So, just be aware of those additional items on the Call Report and the required disclosures.

That's all I have right now on the Call Report. So, I'll turn it back to you, Rae-Ann.

MS. MILLER: Thank you, John, I think Leonard is going to take us into Slide Number 16.

Leonard?

MR. CHANIN: Yes, thank you very much, Rae-Ann.

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I'm going to talk a little bit about Small Dollar Lending.

Actually, the FDIC began looking at Small Dollar Lending before the pandemic after having conversations with a number of financial institutions who suggested that existing guidance, excuse me, from the FDIC and other agencies was viewed by institutions as not encouraging them to make responsible small dollar loans. So, actually in March of 2020 we issued a short statement, along with the other banking agencies, encouraging institutions to offer responsible small dollar loans to consumers and small businesses and noted in that issuance in March that we would be following it up with a little more detailed guidance in coming months.

And in May we did issue a bit more guidance to institutions. It's pretty high-level guidance, that is, it does not go into great detail as to, for example, the types of products that institutions should offer. We mention

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institutions may want to consider installment loans. Institutions may want to consider lines of credit or other products that may be best suitable to their customers' needs.

So, then we mention a few other things in terms of the guidance. The guidance mentions, for example, the loan structure that institutions should structure these transactions and have repayment terms that encourage or enable borrower affordability. That is, that enable borrowers to have successful repayment plans under the terms of the transaction. We also mention, of course, loan underwriting, noting that institutions need to assess consumers' creditworthiness. This, coupled with other guidance we'd issued earlier in the year dealing with alternative data, we suggested institutions may use internal data to evaluate creditworthiness, or credit reports, or alternative data -- such as cash flow information, whatever is going to be most productive in terms of ensuring that consumers

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can get transactions that are structured so they're able to repay the loans.

And then, finally we talk about loan servicing and safeguards suggesting that achieving successful repayment should be the goals of the small dollar loans while avoiding cycles of debt or the need to re-borrow in order to repay these transactions. And we also suggest that as appropriate institutions may want to consider reasonable workout strategies if consumers find themselves unable to repay under the existing terms of the transactions.

So, really what we hope to do is to encourage institutions to provide small dollar loans to their customers and to people who are not their customers today to really add some competition to the market. We know, and institutions obviously know, that there are choices out there for consumers, but many are higher-priced transactions, may not have the terms that are best suited for consumers. So we

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want to encourage more choices to be offered to consumers recognizing that, quite honestly, that small dollar loans are generally not profit centers for institutions, but hoping that institutions can structure these in a way that provides responsible loans to customers and perhaps to encourage further customer relationships as a result of having those loans available to customers.

So, I'll stop there and turn it back over to Rae-Ann. I'm not sure if we're taking questions or what the status is at this point.

Thank you.

MS. MILLER: Thanks, Leonard. I think we can take some questions, Chad, if people were going to do the hand raising.

(Silence)

I don't see any questions queued up.

(Silence)

Thank you very much.

MR. CHANIN: Thank you.

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MR. DAVIS: Wait, wait, wait. Can you hear me? Sorry, we had a technical issue. We do have a couple questions.

MS. MILLER: Great.

MR. DAVIS: Keith Epstein and Tom Leavitt.

MS. MILLER: Thank you.

MR. DAVIS: Keith, if you don't mind going first, Keith?

MEMBER EPSTEIN: Thank you, Chad, and thank you Rae-Ann. Can you hear me?

MS. MILLER: Yes, I can hear you.

MR. DAVIS: Yes.

MEMBER EPSTEIN: Okay. Thank you so much. I just want to run one quick scenario by you.

I hope this doesn't become necessary, but in our state the governor has implemented a phased reopening or resumption of business. We got through the first phase, we got through the second phase, and now we have paused rather than

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move to the third phase because the trends are not favorable in terms of the Coronavirus. And if we were to have to step back and resume some of the restrictions, or go all the way back and some business closure, I'm wondering if that occurred and we had a customer who came back for another modification after they had had payments deferred and then resumed making payments, but were still within the applicable period and the circumstances were essentially the same as those that were in place when we gave them the first deferral, could we look at another one, two, three, however many months of deferral as long as we are consistent with the rest of the guidance?

MS. MILLER: So, I'll start and John can add on(audio interference). We encourage institutions to provide accommodations to customers, accommodations under safe-and-sound conditions and you guys are reviewing accommodations as they come through, but I think it was mentioned, you know, three months, six

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months might not be enough for some of these folks. And down the road, they have options and recovery you feel that it's a good use of your, the bank's funds to help these people. And so usually those types of accommodations are in the best interest of both the banks and the borrowers and we encourage them.

Now, we encourage them before Section 4013 and, you know, what 4013 provides for you is the ability to not have to report those as troubled debt restructurings. 4013 does not change the fact that allowances must be kept. We would expect institutions to risk rate credits in accordance with your internal policies. You'll have to look at accrual status of loans, but there is nothing preventing you from doing that and we encourage you to do so.

The statement that we issued in April and then the later statement in June, and I'm sorry (audio interference).

I'm sorry, do you have a follow up?

MEMBER EPSTEIN: Oh, no, I just wanted to say thank you. We're just concerned with the optics if we did not -- this was a discussion we had the other day, if we didn't label that a TDR and, again, just the optics that maybe there was a recurring problem when, in fact, it was really beyond the borrower's control. So, that helps me and it's consistent with the way you all have approached this and the support you've given us. So, thank you.

MR. RIEGER: This is John Rieger. You know, a lot of institutions have done kind of short-term modifications so that they can stay closer to their customers. And we've had this question asked if they've done a three-month deferral and they need to do another three-month deferral, if they're still in that emergency period and they do that again they basically would still qualify for that relief so you would still not from an accounting perspective need to disclose that as a TDR.

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MS. MILLER: Thanks, John.

MR. LEAVITT: Hi, Tom Leavitt here.

As we were going around the banker roundtable, we were kind of in the trees of our individual regions. And then it was very helpful to lift out of those trees a little bit and hear the regional directors speak to what was going on in the Northeast and the Midwest. So, Keith mentioned scenarios. My question gets at what kind of modeling is the FDIC doing at the forest level relative to factors that in a prolonged pandemic will be of concern to you in terms of mounting bank failures?

MS. MILLER: Thanks very much. And I'll start that, Tom, and we are certainly monitoring institutions. We have a long set of models that we use to look at institutions off-site. Now, the number one tool that we use is institutions that already have identified problems. And so that goes without saying that they get more attention if we know conditions or

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risk management is poor at those institutions, they already have heightened monitoring associated with them. And we're continuing to do that, you know, with a flavor of, you know, obviously, we're limited to doing that off-site and having some more contact with those institutions.

We look at institutions for growth, for (audio interference), for liquidity flags, and particular pandemic created some vulnerabilities where they may not have been on our radar screen. So, we are trying to incorporate those.

And some of you had mentioned some of those things -- can you guys still hear me? I'm getting a strange message.

MR. RIEGER: Yes.

MS. MILLER: So, some new factors that we've tried to work in as best we can are things like concentrations in industries that may have been hit hard, and you mentioned some of them --

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resorts, you know, hospitality, aviation, oil and gas was certainly already on our radar, but has just sort of exploded there. And ag has been sort of a slow burn for us as well. So, yeah, we try to modify our models.

I will say one thing. It's easier to do in some ways in the larger institutions where we have more touches with those institutions because there is a limit to what we collect off-site for call information. So, I might know an institution's commercial portfolio, but I wouldn't know necessarily what type of loans they have underneath that from an off-site basis and then even within some sectors we're learning, say the hotel sector, there are certain sectors, pieces of that sector, that are hit harder. So, if you've got a convention type of hotel that tends to be hit harder than a motel by the highway which is used by workers and more moderate-priced rooms.

So, hopefully that answers your

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question. I don't know if you wanted to add anything to that, Doreen, or anyone else on the line?

MS. EBERLEY: Yeah, I was just going to add so, you know, there certainly is uncertainty and you've expressed some of the uncertainty, you know, about which way things are going to go in the fall and with your borrowers and so, you know, we're monitoring conditions, we're talking to institutions. You know, we don't have a crystal ball that tells us how everything is going to play out, but we're just carefully paying attention and monitoring what's going on.

MR. LEAVITT: Thank you, both.

MR. DAVIS: Okay. Thank you, everyone. It doesn't appear we have any more questions.

It is now about 4:10. We'll take a 10-minute break and then our next segment is an Update on the Current Expected Credit Loss Standard, and we will start that right at 4:20.

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Thank you.

(Whereupon, the above-entitled matter went off the record at 4:09 p.m. and resumed at 4:20 p.m.)

MR. DAVIS: Okay, we're going to get started again. Welcome back, everybody, for our next session.

We're fortunate to have several people from the Financial Accounting Standards Board join us to discuss the Current Expected Credit Losses standard. With us today are Richard Jones, who began serving as Chairman of FASB earlier this month; Susan Cospers, who serves as a board member of FASB; and Shayne Kuhaneck, who's Acting Technical Director of FASB. Thank you.

MR. JONES: Well, thanks very much and thanks to all of you for joining us here and inviting us here today.

I would like to thank Chairman McWilliams for having us here. I just actually met Chairman McWilliams last week and -- I came

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in to introduce myself and to understand her perspectives on financial reporting and CECL, and she was kind enough to invite me here today to hear some perspectives from all of you. So, I am looking forward to it.

As mentioned earlier, I do have two people with me. Sue Cosper is one of my fellow board members. She just joined the board one year ago. She comes from a public accounting background and has experience with auditing community banks. So, I thought this would be particularly relevant for her to join.

And Shayne Kuhaneck, who is our technical director. He previously, prior to joining the FASB, actually worked in a large nonbank financial institution.

And myself, I'm the newest member. I actually joined the FASB as chairman. I became chairman just July 1st of this year. So, I'm in my first month. Prior to that, I spent my career in public accounting, most recently as the chief

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accountant of a Big Four accounting firm. So, I'm looking forward to interacting with you today.

I thought a few things from a background perspective may help just before I turn the floor over to each of you, is, as all of you know, the FASB sets GAAP accounting standards, principally designed to facilitate capital allocation by investors and lenders.

We don't set regulatory capital; however, we do understand that our standards are used by banking regulators.

When the Board adopted CECL, one thing they purposely did was they selected phased implementation where public companies adopted, followed by private companies three years later.

And one of the reasons for that is because we were committed that both entities and we could learn from adoption of the public companies before the private companies adopted, and we, as standard setters, could identify

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whether there were areas where we needed to take action.

That evaluation, evaluating the public company adoption and continued dialog with the private companies and understanding their needs and concerns, that's something that we broadly call our "post-implementation review," and that includes outreach to investors, regulators, preparers, auditors, and other stakeholders. This would be an example of some of that post-implementation review.

That review is done by our board, the FASB board, but a couple points. The first, as standard setters, I will tell you each of our board members is committed to continuous improvement. We're focused on -- we recognize that standards, particularly large standards, are rarely one and done. They often require some fine-tuning.

The other part is our board, our seven-member board, is term limited. Meaning,

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each of our board members, they can serve a term. But at the end of the term, they move on to the next role and there's a new member appointed.

Interestingly enough, from the time that CECL was adopted by our board, there's only one remaining board member who voted for CECL. So, it does show you that it is effectively a fresh look by a new board, and that is by design.

So, I do view your input today as kind of the start of or, I would say, the continuation of a conversation. I hope it doesn't end here. We're looking forward to hearing both your comments today and in the future. We want to hear your perspectives and we want to hear your concerns.

When you do share your concerns related to your implementation activities, it would be particularly helpful if you could tell us whether they are cost-related or outcome-related. And if they're outcome-related, if you see them more as regulatory capital or do you see

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them more as financial reporting issues, and that will simply help us understand how to work through those comments and how to follow up with you.

So, with that, I want to turn it back to your moderator. I think he has some participants that would like to share some input with us on CECL.

MR. DAVIS: Great. And, again, if folks could either use the raise hand function or chat that they have a question, we can get started.

Tom, I think your hand is raised. Is that from last time or do you have a question?

MEMBER LEAVITT: That was from last time, Chad. But while my microphone is on, thank you for that update, Richard.

With the provisions that banks are suddenly taking as they're doing their allowance for loan losses in the second quarter, a lot of community banks, like ours in Vermont, clearly we've had a really good run in the northeast, our

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bank has, in terms of asset quality and we're not yet on the CECL standard. So, we're still living by the old experience loss model, if you will.

So, building in new factors as we do our general reserve is more an art than a science right now.

I don't know if you or your team want to speak to that. We were not anticipating a pandemic and suddenly taking a couple million in new provisions as we bumped along this year.

MR. JONES: Yeah, let me -- I'll chime in and then, Sue, I'll ask you to also chime in. Obviously, the environment that we're in is not one that we expected or, nor others.

That being said, the proponents of the CECL model did argue that in addition to providing transparency into the views of management, enabled allowances and losses to be recognized earlier versus toward the end of the cycle and, therefore, preventing a panic.

So, that transparency into the

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estimate of management and management thinking that, in case, to estimate those lifetime losses was in the best -- in the best position to do so.

That being said, there is no doubt this is an environment that I don't think any of us envisioned we would be walking into in this period.

Sue, if there's something you'd like to add?

MS. COSPER: Sure. So, yeah, I think, of course, no one could have predicted the pandemic, but I do think that much like the subjectivity that you're dealing with today and applying the incurred loss model and sort of thinking about what sort of estimates you need to make, as you think forward to CECL, you know, you're still going to have estimates that you are making based on information that affects your individual facts and circumstances, the market in which your institution operates and so on.

So, I think that -- you know,

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certainly I think the judgments that you're making today are no doubt very difficult considering the environment that we're in.

And in a small institution setting, no one knows your individual customers better than you do and know what and how -- what they're dealing with and what your expectations are. So, I'll just pause there.

MR. DAVIS: Thank you. Other questions?

(silence)

Other comments?

MR. JONES: Maybe one more comment from me, if that's okay. Sorry, I didn't use raise hands.

MR. DAVIS: No, please go ahead.

MR. JONES: Okay. I know that as the institutions on this call work forward through the current environment as well as through their implementation activities, there may be other items to come up or either questions or -- about

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how to apply the standard or any observations on how it could be improved.

I'd encourage them even though not -- maybe not in this forum or -- feel free to reach out to us directly because we are looking for that input from you.

MR. DAVIS: Great. Thank you. One last call for questions.

(silence)

Okay. Well, Richard and Susan and Shayne, thank you very much for joining us.

I really appreciate you taking some time to come in and introduce yourselves and hopefully that will be a dialog that can continue as we move forward. So, thank you again. I appreciate it.

MR. JONES: Great. Thank you.

MR. DAVIS: Next on the agenda we have Claire Lam. She is the Acting Director of the FDIC's Office of Minority and Women Inclusion.

Claire is going to lead a discussion

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on diversity and inclusion at financial institutions. Thank you, Claire.

MS. LAM: Hi. Thank you, Chad, for the introduction.

Can you hear me okay?

MR. DAVIS: Yes, we can. Thank you.

MS. LAM: Okay. Great. Thank you.

Okay. For today's discussion, I want to first provide you with background information about the FDIC's Financial Institution Diversity Program, basically what it is, and then we'll lead into a conversation about the diversity challenges facing community banks.

As part of the presentation, I'd like to also get your feedback. As I walk through the presentation, please think about how some of these diversity and inclusion -- or D&I -- issues apply to your bank.

Are there any examples that you've experienced or that you anticipate that you can share with the group?

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And please consider how the FDIC can better support you in your D&I journey. For example, what guidance and information would be most helpful to you as you work to develop new D&I practices?

At the end, we'll have time for a discussion. I hope you will be able to share some of these experiences and insight with us.

Okay. Let's see. Let's go to the next slide, please. Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 required that the financial regulatory agencies' Office of Minority and Women Inclusion to develop standards to assess diversity policies and practices of financial institutions that they regulate.

In order to do so, on June 10th of 2015 the FDIC, along with other regulators, issued a policy statement that contains standards that provide a framework for financial institutions to self-assess their diversity

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policies and practices.

These standards identify the following five key areas as important for advancing D&I within an organization and were the result of roundtable discussions held with the financial services industry.

The FDIC encourages its regulated entities that have 100 or more employees to conduct a self-assessment annually and to voluntarily share the results with us so that the trends may be shared with the industry.

Financial institutions, regardless of size, can also benefit from conducting the diversity self-assessment because a diverse workforce and an inclusive culture help financial institutions to better connect with the local community and an increasingly diverse customer base.

Next slide, please. Thank you. We're on slide 3. The Financial Institution Diversity, or FID program, has three overarching strategic

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goals.

We seek to create and strengthen partnerships with our financial institutions with the ultimate goal of helping them to mature their diversity and inclusion programs.

We also want to leverage technology in order to make it as easy as possible for our banks to conduct their self-assessment.

Our strategy for achieving these goals start with expanding the number of participating institutions each year.

Having that rich and robust data on D&I trends enable us to share across the industry, and among our financial institutions, which ultimately will result in progress in D&I practices.

Another approach is to develop resources based on what the banks are telling us in their diversity assessment that they need, things that will help them improve their D&I programs and practices.

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In other words, when we see an area of challenge across the industry, we can start to do the research and then share that information again with the aim at helping our banks to better address and overcome those challenges.

Recently, we developed and posted on our website some white papers that serve as resources to support financial institutions in developing and maturing their diversity policies and practices.

At the end of the presentation, you'll see our website and I hope you have time to check that out.

And finally, we seek to promote and to share the benefits of D&I for our financial institutions.

In recent years, we've joined other regulators in hosting the OMWI forum with local bankers in both the New York City area and the Chicago area, and we've also engaged in outreach activities with professional associations such as

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the American Bankers Association.

Next slide. On slide 4, we're excited to announce the recent deployment of the Financial Institution Diversity Self-Assessment application, also known as FID-SA.

This application is accessible through a secure portal within the FDICconnect system. The FDIC developed the FID-SA application to facilitate the collection of self-assessment data, which allows the financial institution to electronically submit this data to us. FID-SA also enables the banks to set up multiple users, who are then able to work on their self-assessment simultaneously.

Other features include the ability to view prior years' submissions as well as the ability to attach supporting documentation, to download and to print.

Behind the scenes, though, the application allows the OMWI staff with the ability to perform much improved trend analysis

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using aggregate data. And prior to this year, we were using a fillable PDF form, which banks either emailed or snail-mailed to us.

So, given the efficient enhancement that the FID-SA application provides to both bankers and OMWI, you can see why we're so excited about promoting the use of this portal.

Financial institutions now have quick access to their self-assessment data through this application and they can easily update that data each year.

Next slide, please. As I mentioned earlier, the FDIC encourages financial institutions with 100 or more employees to conduct and voluntarily submit an assessment.

Many of you are thinking, well, that doesn't apply to my bank, but I would say that you can't afford not to at least be aware of the benefits of the self-assessment. Community banks are encouraged to use the standard in a manner that is appropriate to their size, their

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governance structure and characteristics.

The self-assessment tool will walk you through five categories, and the results will identify your specific areas of strength as well as any areas of challenge. And this allows you to strategically target your resources to the most relevant D&I areas.

And when you compare your results with the annual report that we publish containing the aggregate data across the industry, you can measure how your institution's data aligns against other institutions of similar size, location, practices, and so on.

You can also highlight your D&I successes and increase awareness of your challenges as well as identifying opportunities where you can proactively and strategically take to improve and grow your D&I practices.

Next slide. Let's talk about what bankers are telling us, starting with some of the challenges that we've seen across the industry

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over the years. Overwhelmingly, we've heard that location and size are factors that impede a bank's ability to grow their D&I programs. In other words, their ability to recruit, to hire, and to retain a diverse workforce.

When you're a small community bank, it's hard to compete with the big banks for talent, much less for qualified diverse talent. And for those that are in the rural locations, they don't have access to the same diverse talent pool that urban area banks do. We've also heard significant challenges in retaining a diverse workforce, especially in the rural areas.

And because D&I programs are not one size fits all and it's so unique to each organization, we've heard time and time again that financial institutions are at different stages of the maturity model. What works for one bank doesn't always work for another; however, we do know that regardless of size the small community banks can take certain practices from

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larger institutions and apply them on a much smaller scale.

Also, conducting a self-assessment is singularly the most important diversity practice to identify that baseline toward improving.

Many financial institutions, large and small, also report that they're not aware of how they can maximize the use of the self-assessment tool. They're also not aware of the FID program itself as well as the benefits and engaging with FDIC's Office of Minority and Women Inclusion, as yet another resource for helping them implement their D&I program.

We've also heard that many in the banking community are wary of sharing their D&I data with their regulators. To this end, I want to stress that we only report statistics of the financial institution in the aggregate. No specific identifying information is reported or provided to the public. All submission received are treated as commercially confidential

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information and secured appropriately.

Despite these challenges, many institutions are committed to maturing their D&I programs because they recognize the importance and the value of having a workforce that reflects the communities where they do business.

So, as I mentioned, these are just a few examples that we're seeing from our submissions, and I want to take a pause to ask you, do any of these issues sound familiar to you? And do they apply to your bank? Are there any other examples that you've experienced?

Chad, I'm not able to see the chat. So, stop me if you see --

MR. DAVIS: Yeah. At this point, Claire, we don't see any hands raised.

MS. LAM: Okay.

MR. DAVIS: So, give it maybe a --

MS. LAM: I'll move on.

MR. DAVIS: -- couple more seconds and then you can just move forward. Okay.

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MS. LAM: Okay.

MR. DAVIS: I think you can go ahead and proceed.

MS. LAM: Okay. Great. If you could move to the next slide, please.

The information shared by our financial institutions have also provided many examples of diversity and inclusion that are being practiced in each of the areas covered by the five standards that you saw earlier.

The FDIC Section 342 annual report highlights some of the good work that the financial institutions are doing. Again, what works for one bank doesn't always work for another, but it's always good to be aware of all the different ways in which banks accomplish their D&I goals. The examples are highlighted here on this slide, and I'll go over some of them with you.

Some of the banks have invested in employee development programs that are targeted

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toward developing women and minorities for leadership positions while others report effectively incorporating D&I scorecards in management dashboards. Banks also report that they provide training for staff at all levels, both voluntary and mandatory, to enhance employee awareness about diversity and inclusion issues that may exist.

Senior leaders and managers have a pivotal role in fostering a diverse and inclusive environment. Therefore, many banks have reported that they included D&I in their leadership and management curricula.

And some banks report success with programs that leverage student interns, providing them with opportunities for full and part-time employment. We've often seen these student programs targeted toward minority-serving institutions or in underserved communities.

In recent years, supplier diversity has been an area of focus for many banks. They

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have begun to look at how their business strategies ensure a diverse supplier base in the procurement of their goods and services. More and more banks are measuring the economic impact of their supplier diversity programs to gain a clearer picture of what diverse spending means for the communities that they serve.

And finally, the last two bullets speak to accountability. Many banks report incorporating components of D&I into their corporate goals and adding D&I into the performance standards of their senior management team.

This commitment to organizational and individual accountability goes a long way to driving change that's needed in order to achieve their D&I goals.

Next slide, please. The information that I shared in the previous slides is just a few examples of what bankers are telling us from the 2015 to 2018 reporting period.

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I imagine that this year's reporting period will be very interesting as bankers share how they are adjusting and implementing D&I during these unprecedented times.

And so, at this time, I'd like to ask you, are there any examples that you've experienced that you can share and how have you met some of your D&I challenges this year?

MR. DAVIS: Great. Thank you, Claire.

Again, if -- folks that have questions or comments for Claire, if they could please just raise their hand in the WebEx, I'll get right to your question.

MS. LAM: Or you could also tell us how we can better support you in your D&I journey.

MEMBER KELLY: Chad, this is Kenneth. Maybe I'm the slow one. I don't see a place to raise my hand. So, I --

MR. DAVIS: Feel free to jump in.

MEMBER KELLY: -- am just kind of jumping in here.

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I just want to say a very thoughtful presentation. It is heavy. This is a very heavy subject, especially in our country at this time.

And so, I just want to show my appreciation to the FDIC in even having this topic, you know, brought up on, you know, before this body.

As I said in my opening comments, I believe that bankers really have a responsibility to kind of demonstrate the leadership that is needed in this country and every aspect of injustice has a root in economics. And you can just name the time period and you can find that there was an economic basis in it. Whether it was slavery itself, Jim Crow itself, the civil rights movement, all of those things have had an economic floor that was really the premise for those challenges.

And so, I'll just ask my colleagues on this panel to help us think about how we can do that. Now, I'll be real clear what you put forth

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can feel very heavy to the audience, because I've sat in those shoes.

The reality is a bank in Iowa -- and please go with me on the stereotypes here. A bank in Iowa may not have the diversity of the city of Los Angeles. That's just the reality, right?

And so, what will make, I think, many of these institutions be comfortable with these discussions is ensuring that they won't be put out as the poster child for not complying.

And so, we'll have to be very thoughtful in what we mean by, you know, you are meeting a benchmark or you're not meeting a benchmark because it should be somewhat -- I won't say exactly proportionate, but it needs to be based in something that is real.

So, for example, if you are in the State of Alabama and your workforce was 85 percent white and, say, 15 percent African American, if you just use those two ethnicities, that would be

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out of line with the population of the state. And there are some reasons for that, right? So, you can bench on that.

But if you're in Iowa, that's very different. If you're in LA, it's very different. So, we'll have to be, in my opinion, very thoughtful on this, but I think it's a -- the type of conversation we need to have. And I want to commend you and -- Chairwoman McWilliams on your leadership, Director Gruenberg in your leadership, in even bringing this topic to the table.

And I hope that even the colleagues and everyone under the sound of my voice can be comfortable with having this conversation so we can begin to make some progress.

MS. LAM: Thank you for your thoughts, Kenneth, and I completely agree.

There's a -- diversity and inclusion can't be mandated, but there are studies after studies regarding the benefits of having a

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workforce that reflects the community that you live in, the community that we work in. And so, I absolutely agree with you.

MR. DAVIS: Okay. One last call for questions. Okay. Claire, thank you. Kenneth, thank you.

MS. LAM: Yes.

MR. DAVIS: Go ahead, Claire.

MS. LAM: As I go ahead and close, I want to echo what Kenneth said. Diversity and inclusion is a difficult topic, it's a heavy topic. But as you think about this and you want to provide feedback for us, we do want to provide resources that enable you to accomplish your D&I goals. So, on this slide, you will see my contact information. Please feel free to reach out to me and provide us with any feedback. We want to make sure that we're meeting your needs and, you know -- and also you can check out our website. All the information is there. We've got a list of historical reports that document some of the

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trends and analysis over the years.

Okay. And in closing, I want to encourage your institution to consider conducting the D&I assessment for 2020. If you haven't already done so, please check out a FID-SA application in the FDICconnect and get access to that. It will be your first step toward the D&I awareness and practice and engaging with us.

So, thank you, I welcome your feedback, and thank you for your time.

MR. DAVIS: Great. Thank you, Claire.

Our next panel is from the Division of Insurance and Research. Ashley Mihalik is the Section Chief of the Banking and Regulatory Policy Section and is going to go over the recent final rule related to deposit insurance assessments.

And Yan Lee, an economist in the Special Studies Section, is going to discuss the FDIC Small Business Lending Survey.

Great. Please proceed.

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MS. MIHALIK: Thanks, Chad.

My name is Ashley Mihalik, as Chad introduced me. I'm the Chief of the Banking and Regulatory Policy Section in the Division of Insurance and Research at the FDIC.

I'm providing an update today on a rule that the FDIC Board recently approved related to deposit insurance assessments and the SBA's Paycheck Protection Program as well as the Federal Reserve's PPP Liquidity Facility and the Money Market Liquidity Facility, or MMLF.

On June 22nd, the FDIC Board approved a final rule that mitigates the deposit insurance assessment effects of participating in the PPP, the PPPLF and the MMLF.

These programs were put in place to provide financing to small businesses, and liquidity to small business lenders and the broader credit markets, and to help stabilize the financial system in a time of significant economic strain. The final rule ensures that

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banks will not be subject to significantly higher deposit insurance assessments for participating in these programs.

As a matter of background, institutions are charged deposit insurance assessments based on different measures depending on whether they are classified as small banks, large banks, or highly complex institutions for assessment purposes.

There are a number of financial measures used to determine a bank's assessment rate and a bank's deposit insurance assessment amount is calculated by multiplying its rate by its assessment base, which is roughly its total liabilities or average consolidated assets less average tangible equity.

Under the final rule, the FDIC will exclude PPP loans from an institution's total assets, and will exclude borrowings under the PPPLF from an institution's total liabilities, in risk measures used to determine an IDI's

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assessment rate.

For example, one of the measures used to determine a small bank's deposit insurance assessment rate is asset growth. The FDIC will exclude PPP loans from an institution's total assets, including in the calculation of the asset growth measure, so that an IDI will not be charged a higher assessment rate due to asset growth resulting from participation in the PPP. Participation in the PPP and MMLF programs could have the effect of expanding an institution's balance sheet.

The final rule also mitigates the effect of PPP loans and assets purchased under the MMLF increasing an institution's assessment base or its assets less equity. Under the final rule, the FDIC will provide an offset to an institution's total assessment that is equal to the increase in its base due to participation in the PPP and MMLF.

In addition, the FDIC will exclude all

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PPP loans and assets purchased under the MMLF from total assets in calculating certain adjustments that reference a bank's assessment base and then classifying institutions as small, large, or highly complex for assessment purposes.

These adjustments include the unsecured debt adjustment and the depository institution debt adjustment. Another adjustment, the brokered deposit adjustment, does not apply to established small banks.

These changes mean that a small bank would not be reclassified as large solely due to participation in PPP or MMLF.

The changes under the final rule will be applied to insured depository institutions' quarterly deposit insurance assessment starting in the second quarter of 2020, which is paid by institutions in September 2020.

Beginning as of June 30th, 2020, as John mentioned under the Call Report changes, institutions will report on the Consolidated

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Report of Condition and Income new items related to participation in these programs.

There are eight new items that the FDIC will use to apply the modifications under the final rule in calculating an institution's deposit insurance assessment.

The FDIC will post on its public website assessment calculators that reflect the revisions under the final rule once data for the June 30th, 2020 Call Report period becomes available.

That concludes my update on the assessment rule. I'm going to take questions before handing it over to Yan.

(Silence)

MR. DAVIS: Yan, I don't see any questions. So, please feel free to proceed, Yan.

MS. LEE: Okay. Thank you so much. I'm delighted to be here. Again, my name is Yan Lee and I am a Ph.D. Researcher in the Division of Insurance and Research.

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And I know that I am the barrier to your freedom since I am the last speaker. So, I'll try to keep it lively and to the point. And, of course, I welcome questions during and after the presentation.

Actually, let me walk a little bit through what we're going to do today. So, today I'm going to be talking about new research that's come out of the FDIC Small Business Lending Survey.

And so, we have ongoing research that comes from this data and today I'm going to talk about a new staff study that was just published this month. And basically we're assessing how useful the Call Report data is, how accurate it is in measuring small business lending by community banks. That's what I'll be talking about today.

So, what exactly is the Small Business Lending Survey? This is a nationally representative survey of bank small business

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lending practices.

And by "nationally representative," we mean that the banks are sampled in a way such that we can make inferences about the entire industry and not just the banks that answer the survey.

And so, the survey -- we contracted with the US Census and were able to guarantee confidentiality and so we had a very high response rate.

60 percent of the banks that were asked to participate ended up actually responding, and that ended up being for the number of banks, at the time, 1/5th of the US banks, or 1,200 banks, at the time of the survey.

And so, in 2016, we had our first collection and we basically asked banks about a wide range of topics that related to small business lending. And then in 2017, we analyzed the data. And in 2018, we published a report of these findings.

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So, today what I'll be talking about is some of the new research that we've been able to conduct with the data that we collected in this 2016 collection.

So, what we're interested in is the amount of small business lending by banks and how well the Call Report data is able to approximate that.

So, given that we have a short presentation, I thought it would be easier to use a figure to kind of illustrate my points.

So, basically banks are important to US small businesses. They are the primary source of external financing for US small businesses, and community banks are thought to be especially adept in addressing the needs of US small businesses.

They're on the ground, they're local to the economy, they're local to the area, and basically they can engage small business in a way that perhaps large banks cannot. So, we're really

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interested in how much lending small banks, and banks in general, lend to US small businesses.

So, what are we interested in capturing? So, if you think about this square as the pie of a bank's small business lending, what we're interested in is this orange column.

So, banks make loans to small businesses and to larger businesses, and small businesses receive small loans and larger loans. And what we're interested in is, hey, look, for a given bank, how much of your lending -- your total pie -- goes to these small businesses?

So, this is A and B. This is what we're interested in capturing, loans of all sizes that go to US small businesses.

Now, what we used instead is actually what we'll call the "Call Report proxy," and that is loans of a million dollars or less at origination, and we use that to approximate bank small business lending.

So, what we want to measure is this

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area, A plus B, but what we use is A plus C. So, these are loans of a million dollars or less at origination and that's our proxy for bank small business lending.

Now, what we see here is that this cell B is actually bigger loans that go to small businesses that are not captured if we use this Call Report proxy.

And then what we also have is this cell C which are the small loans, but sometimes they go to bigger businesses. So, for example, it could be a C&I credit card loan.

So, what we're interested in is whether -- is what size are these B and C cells. So, the Call Report proxy would be pretty good if B and C are very close to zero. So, again, B is understatement of bank small business lending and C is overstatement of bank small business lending.

Okay. So, these are our main results and I know it's a lot going on here. So, I'll

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walk you through this very, very slowly and -- know it's a lot going on.

So -- okay. So, basically we're able to use the data from the SBLS that was conducted in 2016 to answer this question.

And so, what we did was we asked banks -- hey, of your loans, your C&I loans that are a million dollars or less or greater than a million, let's parse this by firm size.

So, we asked the banks -- hey, for your firms -- for firms that are less than 10 million gross annual revenue and greater than 10 million gross annual revenue, how much of the lending are they getting in these different loan size buckets?

So, basically we're able to say something for banks that are one to \$10 billion dollars in assets in 2015.

So, these are -- the thing about these, there's like larger -- or larger community banks or not small community banks.

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So, what we find is that if you think about this as a pie for a given bank -- in this case, this is the entire industry of banks that are one to ten billion assets -- for every hundred dollars that they lend in C&I lending, \$30 are lending to small businesses that are not being counted, if we rely on the Call Report proxy, and then about \$7.50 are lending that will be counted, but they're actually going to larger businesses.

So, if you add that together, that means about \$38 for every hundred is kind of in the wrong bucket.

And then if you net that out, what that means is that for every \$100, \$23 are lending to small businesses that are not being counted, okay? So, this is something that we think is important to know.

And then another thing that I want to point out from this slide is that if you look at just the lending to small business, which is the A and B that we're interested in, and we look at

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how loans are distributed by the loan size, \$1 million or less or greater than a million, we see that basically half the loans that are going to small businesses are in these small loans, but more than half -- more than half -- so, more than half are in these larger loans that are going to small businesses.

So, that's currently not being counted if you rely on the Call Report proxy for small business lending.

And, I want to say and reassure you that the lending that we measure in the Call Report is very, very accurate, but the question that we're answering here is whether it's accurate in measuring small business lending.

And so, it's very accurate in terms of measuring loans that are a million dollars or less, but, as you can see here, as of today it might not be so accurate in capturing bank small business lending to -- bank lending to small businesses.

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Okay. So, just to wrap up, in 2016 we covered these different topic areas for our data collection. And in 2022, we're going to have a second data collection. We're going to refine these different topics and we're going to expand on the previous topics, including banks' response to COVID-19; banks' use of fintech -- how they engage with fintech, whether they use it at all; bank loan decision-making in small business lending -- so who makes this decision, where are the decisions made; and bank SBA lending. And this is related to what Ashley shared about before.

Basically, we want to see how banks have been responding and using these programs given the recent pandemic and programs that have been offered.

And so, just to do some cheerleading, the SBLS 2022, that's our second data collection, we're currently in the middle of drafting the instrument for that. We'll be testing it in the

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field with about 50 US banks next year and then it will be in the field in 2022.

And so, if you're randomly asked to participate, we would love to have you participate so that your bank is -- the data for your bank is included in our results so that we can really say something about the impact of US banks for US small businesses.

And in 2023, we'll analyze the data we collected. And in 2024, we'll publish a final report for this second data collection. Thank you.

So, I'm happy to take any questions. I know there's a lot that I talked about today and I'm happy to flip through my slides to answer those questions.

MR. DAVIS: Thank you.

And, Alan, the floor is yours. I see you have a question.

MEMBER SHETTLESWORTH: Can you hear me now?

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MR. DAVIS: Yes.

MEMBER SHETTLESWORTH: Great. Thank you.

Yan, thank you for that. Again, Alan Shettlesworth, Main Bank in Albuquerque, New Mexico.

I'm happy to participate in the next survey that you have. So, if you would take my contact information down or, you know, we can connect after this, happy to do that.

MS. LEE: Okay.

MEMBER SHETTLESWORTH: One point I have is I would prefer when we're doing this data collection, if we could, if we're going to go through the effort of collecting the data and reporting the data, I'd feel a lot better about it if we could report it by zip code.

New Mexico is one state in particular that is -- it's notorious for outside lenders coming in and taking deposits and loaning them outside of New Mexico.

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And I wonder how we can incorporate that data to see where that is being lent by zip code because we do a good job at the FDIC of reporting which institutions have deposits based by state, but we don't necessarily have that same benchmark, at least publicly available, that I'm aware of, that dictates who's actually lending money back in those economies.

And, to me, that's the most important thing for our economies to succeed is to take the resources from your area and loan back into that area.

MS. LEE: Yeah, that's a great comment.

I believe the CFPB has a mandate to really investigate whether they can collect bank small business lending data at the loan level.

And so, that would make it a collection where you can actually identify who's a lender --

MS. MIHALIK: (Simultaneous

speaking.)Dodd-Frank Act

MS. LEE: Yeah. Yeah. As a function -- as a result of Dodd-Frank. So, they have this mandate and they are tasked to figure out if they can collect at the loan level similar to HMDA data where -- who lends to which locations at the loan level -- collecting the loan level data with these geographic identifiers. So, that's a great point.

I'm happy to take more questions especially about this slide, if there are any.

MR. DAVIS: Okay. Are there any other questions?

(silence)

Okay. Does not appear that there are any more questions, Yan. So, thank you very much. We appreciate the presentation.

MS. LEE: Great. Thank you so much.

MR. DAVIS: We now have gained a few minutes back in the schedule. So, Brandon Milhorn, the Deputy to the Chairman and the Chief

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of Staff at the FDIC, is going to spend a few minutes talking to us about the rapid prototyping technology competition that we announced last month.

MR. MILHORN: Thanks, Chad, and good afternoon to the committee.

Last year when I spoke before the committee, I talked about our Supervision Modernization Subcommittee and our goal of looking at our supervisory efforts and understanding how technology can be used to promote efficiency and effectiveness in our supervision while also cutting costs and regulatory burden on financial institutions that we supervise, particularly at our community banks.

Last month, in furtherance of those efforts, we announced a competition designed to reexamine how we do financial reporting in the United States.

And it's interesting -- some of the

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very conversations that we've been having at the committee today are reflective of the challenges that we have in data, you know, larger institutions we get more granular data on, smaller institutions we're relying on Call Report data that comes in quarterly or examination efforts, our supervisory efforts, and the challenges that come along with whether it's too big and too aggregate and not granular enough.

And so, we've tasked our competitors in this competition -- for purposes of the competition we brought in 30 competitors from financial services, technology, data management, big data, data quality, firms with expertise in artificial intelligence and machine learning, and we tasked them with the challenge: Could you provide access to data from our financial institutions regardless of the data structure, regardless of the data source, regardless of data type, get access to that data and pull it in and run analytics against it so that we could better

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understand the financial health of the institution and use that data to look more broadly at the financial health of the overall financial sector?

And the biggest challenge there, as you all well know, is this data, particularly for our community banks is spread across multiple core processors, many different data structures, and it lends itself to some of the challenges that you all, and the community banks particularly, have in just filling out your Call Reports, even despite efforts to automate that process over the last several years.

So, the question, it's very interesting. We're using an acquisition method known as rapid prototyping.

So, instead of defining out a specific set of requirements, we give these competitors, all very experienced in this space, a challenge: How would you address this challenge? How would you pull this data from across multiple providers

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and run analytics against it?

And the interesting part of that is because you put them in this environment, make it a competition, the solutions that get proposed are often ingenious, and we're hoping to see that in the context of our competition.

They'll provide their draft concept papers, they'll have 90 days after that to produce a demo, and then 90 days after that to produce a prototype which we'll consider to put in production.

I know in the package, one of the things that you saw was an op-ed in the American Banker by Chairman McWilliams with our goal of can we make the Call Report obsolete. Of course that's going to take time. This is not something that's going to happen in 180 days.

And as the Chairman noted in the op-ed, it may not even happen in her tenure, but we hope that this effort can form the foundation for a better supervisory model, a more timely access

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to targeted datasets regarding the financial health of our -- of the institutions.

And we can do it in a way that's seamless for institutions so it doesn't add burden and add costs. And we actually hope that because of what we learn about data, it can help cut costs at your institutions.

One of the things that we're not going to do with this effort is impose or mandate data standards or impose a requirement that all institutions participate in the technology demonstration.

We're hoping that once we have a prototype developed, we can -- there will be many institutions that volunteer to participate.

You know, using technology can be incredibly helpful not only for the FDIC, but taking a more forward-looking digital approach to operations can also be helpful for our institutions.

But we're very cognizant about

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imposing these costs, particularly on community banks that would come in all flavors when it comes to technology.

So, we're hoping that our efforts on rapid prototyping can provide solutions to address regulatory reporting, but also help our institutions take a more effective approach to onboarding and using technology in their operations.

We see this as the foundation for several efforts at using technology and supervision over the next few years.

So, with that, I'd be happy to take any questions that you might have about the -- about our efforts in this space.

MR. DAVIS: Okay. Do we have any questions for Brandon?

Alan, please go ahead.

MEMBER SHETTLESWORTH: Can you hear me?

MR. DAVIS: Yes.

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MEMBER SHETTLESWORTH: Okay. Great.

Thank you, Brandon. I like the concept here. What I've got going in my head is potentially a concept where a file can be created or uploaded from our core banking system similar to how we handle examinations now.

And so, for specific FDIC examinations we just upload a file from our core and send that data to you guys and that's really not anything extra we really have to do other than upload a file periodically.

And so, if the technology can be moved in that direction to basically reduce us having to do a separate manual Call Report once a quarter, we could do some type of manual upload of what we're already embedding or inputting in our core on a daily basis.

That, to me, just sounds like a really -- a real potential to have real relief there.

MR. MILHORN: Thanks, Alan.

I'd say, you know, that is very close

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to our goal, you know. We want to make this seamless for institutions. We want to be able to access the data where it sits, without imposing additional requirements or additional burdens on institutions to be able to understand and pull that data in and run analytics against it. Not just necessarily for, you know, this exam, but for -- over time so we can see -- you know, from my perspective, our goal is to identify risk in institutions early, before it grows.

Identify risk in the financial system early, before it grows, and so we can see that develop and take steps to mitigate it, and we think this technology can be a very helpful tool in that approach.

Thanks, Alan.

MEMBER SHETTLESWORTH: Thank you.

MR. DAVIS: Louise, I believe you have a question, correct?

MEMBER WALKER: You know what? We will volunteer, if you're looking for volunteers.

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MR. MILHORN: Thank you very much. I appreciate that. We -- I'll get you on speed dial.

MEMBER WALKER: Okay.

MR. DAVIS: Any other questions or comments for Brandon? Sarah, please go ahead.

MEMBER GETZLAFF: A comment that I have is that at our bank there's often times where we can upload a file to send it to the Federal Reserve Bank, but we're not currently capturing all of those data fields within our core system.

We maybe have them, but they're in our files and we've never found it useful to enter those fields for whatever reason before. And now, we're having to go back through and dig through all of our existing files to input that data.

And so, when it does move towards that way, it would be useful to give us those fields, you know, well in advance so we can start, you know, inputting as we go and not have such a

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backlog.

MR. MILHORN: Yes, Sarah.

You know, one of our goals is to take the data as it exists. We think there's good granular data out there that's already in our systems and there's value that can be added using external datasets.

And we can pull that -- if we can pull that together and ensure that the data is very good quality, then we can run analytics without imposing, you know, data formatting or data, you know, mandating additional cells.

That, to me, is really the trick with this first effort -- the rapid prototyping effort in this space, is what can we do without imposing these additional format and cell challenges on our institutions.

MEMBER GETZLAFF: Thank you.

MR. DAVIS: Anyone else?

(silence)

Okay. Thank you, Brandon.

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MR. MILHORN: Thanks, Chad. I look forward to working with the committee on the project.

MR. DAVIS: Great. Thank you.

Before we -- that completes the agenda. Before we close, Director Gruenberg, do you have any comments you'd like to make?

DIRECTOR GRUENBERG: Thanks, Chad.

I just want to thank the members of the committee. These are extraordinary times. So, we appreciate you taking the time to share your thoughts and experience with us today. As always, extraordinarily helpful and insightful.

And I will say, I do think the next 12 to 18 months are going to be a period of extraordinary challenge and stress for the financial system and the banking system of the United States. And I hope we can continue to benefit from the insight and experience of our committee members as we move along here.

So, just a word of thanks for taking

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the time today.

MR. DAVIS: Thank you.

And with that, I'll turn it over to Chairman McWilliams to close us.

CHAIRMAN MCWILLIAMS: Thank you, Chad. Thank you, Marty. Thank you, members of the committee.

I would like to echo Marty's comments. These truly are extraordinary times and, frankly, in the next year or two years we're going to be working through a number of issues as we deal with the pandemic and the aftermath.

And hopefully the pandemic will come to an end at some point soon when we have the vaccine and the herd immunity, but we're not there yet.

In the meantime, please continue to support your communities. I cannot thank you enough for the valuable input you provided to us today and took the time out of your busy schedules.

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If there's any silver lining, you didn't have to travel for this. So, at least you're spared the travel time, if nothing else, but your input was extraordinarily valuable to us.

And we will continue to seek your advice as we move forward together dealing with myriad issues that are inevitably going to arise in the next couple of years.

So, thank you for your time today and before we say goodbye, I would like to thank a former member -- now a former member, Chris Donnelly, from -- who is president and CEO of Bank of the Prairie in Olathe, Kansas.

He stopped being a member. The last meeting was his last meeting. And we would like to thank him for the time and effort he devoted to this committee in helping us work on community banking issues in general.

To all of you, thank you from the bottom of my heart. I know everybody at the FDIC

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is incredibly grateful for your time, effort, and attention to these issues.

Stay safe and we look forward to seeing you in October. Thank you.

(Whereupon, the above-entitled matter went off the record at 5:21 p.m.)