

FEDERAL DEPOSIT INSURANCE CORPORATION

+ + + + +

ADVISORY COMMITTEE ON COMMUNITY BANKING

+ + + + +

MEETING

+ + + + +

WEDNESDAY
OCTOBER 28, 2020

+ + + + +

The Advisory Committee on Community Banking met via Video Teleconference, at 1:00 p.m. EDT, Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation Board of Directors, presiding.

PRESENT

- JELENA MCWILLIAMS, Chairman, FDIC Board of Directors
- SHAHA ANDERSEN, CEO, Trustar Bank
- DICK BESHEAR, Chairman, President and CEO, First Security Bank and Trust Company
- FRED DeBIASI, President and COO, Valley Central Bank
- JAMES J. EDWARDS, JR., CEO, United Bank
- KEITH EPSTEIN, Executive Vice President and CEO, Roxboro Savings Bank
- SARAH GETZLAFF, CEO, Security First Bank of North Dakota
- STEPHEN HAYES, Chairman and President, Dakota Prairie Bank
- KENNETH KELLY, Chairman and CEO, First

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Independence Bank

BRUCE KIMBELL, President and CEO, First Community
Bank of the Heartland
THOMAS LEAVITT, President and CEO, Northfield
Savings Bank
LORI MALEY, President and CEO, Bank of Bird-in-
Hand
PATTY MONGOLD, Chairperson, President and CEO,
Mt. McKinley Bank
GILBERT NARVAEZ, JR., President and CEO, Falcon
International Bank
MARK PITKIN, President and CEO, Sugar River Bank
ALAN SHETTLESWORTH, President and COO, Main Bank
LOUISE WALKER, President and CEO, First Northern
Bank

ALSO PRESENT

MARTIN GRUENBERG, Director (Internal), FDIC
JAMES ANDERSON, Deputy General Counsel
ZACKARY ANDERSON, Special Assistant, Division of
Resolutions and Receiverships
SHANNON BEATTIE, Deputy Chief Accountant,
Division of Risk Management Supervision
WILLIAM BRIGGS, Deputy Associate Administrator,
Office of Capital Access, U.S. Small
Business Administration
MARY CALKINS, Attorney
JOHN CONNEELY, Regional Director, Chicago Region
KYMBERLY COPA, Deputy to the Director
(Appointive) BRIAN COX, Chief, Capital Markets
Strategies
CHAD DAVIS, Deputy to the Chairman for External
Affairs
DOREEN EBERLEY, Director, Division of Risk
Management Supervision
DIANE ELLIS, Director, Division of Insurance
and Research
PAMELA FARWIG, Deputy Director, Franchise and
Asset Marketing Branch, Division of
Resolutions and Receiverships
JASA GITOMER, Attorney
SHANNON GRECO, Senior Conference Planning Manager
PATRICIA GURNEAU, Regulatory Editing Specialist,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Legal Division

ISAAC HERNANDEZ, Deputy Director, Infrastructure Services, Division of Information Technology

TRAVIS HILL, Deputy to the Chairman for Policy
ANGELA HINTON, Senior Financial Analyst, Division of Insurance and Research

DANIEL HOOPLE, Financial Economist, Division of Insurance and Research

ANTHONY LOWE, FDIC Ombudsman; Director, Office of the Ombudsman

CHRISTOPHER LUCAS, Senior IT Specialist, Division of Information Technology

SAMUEL LUTZ, Counsel, Legal Division

BRANDON MILHORN, Deputy to the Chairman and Chief of Staff

JONATHAN MILLER, Deputy Director for Policy and Research, Division of Depositor and Consumer Protection

RAE-ANN MILLER, Associate Director, Risk Management Policy Branch, Division of Risk Management Supervision

KATHY MOE, Regional Director, San Francisco Region

SHAYNA OLESIUK, Associate Director, National & Regional Risk Analysis, Division of Insurance and Research

MARK PEARCE, Director, Division of Depositor and Consumer Protection

HARREL PETTWAY, Senior Deputy General Counsel

NICHOLAS PODSIADLY, General Counsel

JONATHAN POGACH, Chief, Financial Modeling & Research Section, Division of Insurance and Research

JOHN RIEGER, Chief Accountant, Division of Risk Management Supervision

WILLIAM A. ROWE, III, Deputy to the Director (Comptroller of the Currency)

LISA ROY, Associate Director, Division of Risk Management Supervision

BETTY RUDOLPH, National Director, Minority and Community Development Banking

MARK SAVI, Lead IT Specialist, Division of

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Information Technology

DIANNA SEABORN, Director, Office of Financial
Assistance, U.S. Small Business
Administration

MICHAEL SHAHEEN, Program Specialist, Division of
Risk Management Supervision

JAMES SHEESLEY, Assistant Executive Secretary
(Supervisory Counsel)

SUSAN STREICH, Director, Office of Credit Risk
Management, U.S. Small Business
Administration

JOCELYN SUTTON, Deputy to the Director (CFPB)

MONA THOMAS, Chief, Special Services Unit,
Division of Administration

JOHN VOGEL, Deputy Director of Operations and
Chief of Staff, Division of Risk Management
Supervision

JAMES WATTS, Counsel, Legal Division

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

(202) 234-4433

www.nealrgross.com

CONTENTS

Introductory Remarks	6
Discussion of Local Banking Issues	9
Shayna Olesiuk	97
Kathy Moe	101
John Conneely	109
Update from the Minority Depository Institutions Subcommittee	
Gilbert Narvaez, Jr.	121
Betty Rudolph	124
Proposed Changes to the Supervisory Appeals Process	
James Watts	139
Samuel Lutz	143
Supervision Update	
Doreen Eberley	152
John Rieger	153
Shannon Beattie	157
Rae-Ann Miller	174
Rapid Prototyping Competition and Request for Information on Proposed Voluntary Certification Program to Promote New Technologies	
Brandon Milhorn	176
Update from the U.S. Small Business Administration	186
Division of Insurance and Research Update	
Angela Hinton	216
Daniel Hoople	230
Jonathan Pogach	242
Closing Remarks	246

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

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

1:14 p.m.

CHAIRMAN MCWILLIAMS: Thank you, Chad, and good morning or good afternoon, everybody, depending on where you are. This is our second virtual meeting of the Community Bank Advisory Committee here at the FDIC. I want to welcome you all for what I hope to be a very productive discussion. A lot has happened in the last few months since we last met, and I have to tell you we have been really, really trying very hard at the FDIC to make sure that the banks throughout the United States, community banks like you, can continue to do the business of banking amidst very, very dire circumstances and unprecedented business closures in the pandemic.

I won't belabor this too much. I will welcome you again to the committee meeting. I'm glad you're here. I look very forward to hearing your input. We do have a new member joining us today for the first time. It's Stephen Hayes,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Chairman and President of Dakota Prairie Bank, Fort Pierre, South Dakota. Welcome, Stephen. You will hopefully enjoy a very robust discussion. Thank you all again for being here today, and I will turn it over to Chad Davis. Thank you.

MR. DAVIS: Thank you, Chairman. Before I start with the panel, Director Gruenberg, are there any remarks you would like to add?

DIRECTOR GRUENBERG: Thank you, Chad. Just want to take the opportunity to thank all the members of the committee for participating today. I very much look forward in particular to the roundtable discussion coming up. I would be interested in hearing both what you're experiencing now and from your standpoint, what the outlook is. We've had a pretty challenging and surreal seven or eight months here. I think the next six to 12 months could well be even more so. I very much look forward to the discussion

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

today and thank the members of the committee for their participation. Thank you, Chad.

MR. DAVIS: Thank you, Director Gruenberg. We're going to start this afternoon by turning to the committee members for a discussion of trends and issues related to local banking environments and conditions. After we've heard from the committee members, we've also asked some FDIC staff members to discuss observations from a national and a 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 have John Conneely, the FDIC's Regional Director from the Chicago region, and Kathy Moe, the FDIC's Regional Director from the San Francisco region. They're going to discuss observations from local FDIC staff. So with that, Tom, I will turn it

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

over to you to begin our discussion.

MEMBER LEAVITT: Thank you very much, Chad. I'll pause here for just a second as my voice and video catch up to the program. I'm assuming that's streaming at this point. Good afternoon, Chairman McWilliams, Director Gruenberg, leadership team at the FDIC, the staff, my fellow bankers all around the country. We're moving along here in the Green Mountain State.

The unemployment rate that I talked about last year, which was leading the country on the low side as you heard this summer, had elevated to 16.5 percent as of April of this year. It had come down to 8.3 percent in July, and now is down to 4.2 percent in September. State tax revenues in September were well above lowered expectations and appear to be positively affected by the federal and state relief programs that have benefitted from on businesses and households. That's the good news.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Our actual employment growth is down year over year, with a declining workforce as more people have opted out. We are seeing the first real threat from the Coronavirus pandemic since spring. After succeeding with on-campus college re-openings around the state this fall, we've had one school recently at the center of a cluster of positive cases, and some community spread in a few other pockets around the state, resulting in clusters.

Trending throughout the country and here in the Northeast is a bit ominous, and we look out into the cold weather months with some concern, along with some hope that we'll be able to continue to operate somewhat in the fashion that we have been doing this quarter. Still we have the lowest incidence of COVID-19 in the nation and have a very low positivity rate as testing significantly ramps up. We have no deaths here in Vermont since late July.

We saw some modest improvements in the

hospitality sector during what was a brilliant fall foliage season this year. Those gains are at risk, as the winter comes and indoor activities are potentially again in a more restricted mode, something that the governor is signaling may happen if we do not see a quick reversal of case counts. That would again put pressure on the Labor Department with increasing unemployment claims.

Overall year to date, we are fortunate we have not seen greater delinquencies, with our asset quality holding up at the moment. Vermonters are generally conscientious about debt commitments, and we have seen those with modifications earlier in the year returning to normal paying status. Though we took some heavier provision in the second quarter, we have leveled off in Q3 and will do so further in Q4. That said, we are taking preventive steps now to bolster the workout capacity of our lenders so that we can be proactive, should any stress among

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

our commercial borrowers materialize.

We are proud of the resilience of the team here at NSB. Having successfully navigated business continuity pandemic response, we return to our major strategic initiatives, including resuming our core conversion project to scale our operational capacity. We are building a new strategic plan to kick in mid-2021 after the conversion is complete in the second quarter.

We have been active moving forward with our NSB equity framework. We had the contours of this commitment outlined over the past year and a half, and have been moved by the events of 2020 to solidify eight pillars to support the framework. We have been making community investments in programs advancing under-represented populations. We have been diversifying representation in our governance at the board level and among our corporators.

We are working on education and communications internally with the board,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

management, and staff, including sessions facilitated here by the University of Vermont's Vice President of Diversity, Equity and Inclusion. We are building better pathways to inclusion in recruitment, mentoring, and workplace environment. And we are taking encouragement from the FDIC with this month's publication of the resource guide, *Investing in the Future of Mission-Driven Banks*.

Along with a meaningful phone call I had with Kenneth Kelly following this summer's advisory committee session, to begin exploration of how we might more actively support one or more of the four CDFIs operating in the State of Vermont. The framework is being built for the long haul, with recognition that progress does not come in an instant, but we are encouraged by these important and necessary preliminary steps.

I want to thank my fellow bankers on the advisory committee. I have been taking inspiration from each of you over the last two

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

years, as you have demonstrated why our industry is an essential economic backbone for our country. Keep up the great work. And to Chairman McWilliams, Director Gruenberg, the leadership team and the dedicated staff at the FDIC, thank you for giving Northfield Savings Bank the honor of serving and being heard. Our depositors and the safety and soundness of our banking system in America are in very good hands. Stay well, everyone. Thank you.

MR. DAVIS: Thank you, Tom. Bruce, please proceed. Bruce?

MEMBER KIMBELL: Yes?

MR. DAVIS: Go ahead.

MEMBER KIMBELL: Are you there?

MR. DAVIS: Yes, I can hear you. Go ahead.

MEMBER KIMBELL: Okay. Great. For some reason my video's not popping up, but we'll go on from there. Maybe it will momentarily. Bruce Kimbell with First Community Bank in

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Clinton, Kentucky. We are located in the extreme western corner of Kentucky and Northwestern Tennessee. At this point in this particular area, we're in the middle of harvest season, although recent rain has slowed that down somewhat.

We are an agricultural bank at our core, and because of that we're having a wonderful year actually this year, even with the COVID situation going on. Presently, crops are coming in with record yields on both corn and soybeans. Prices have recently rebounded considerably, which is just really helping the outlook overall of not only our bank, but just our local area.

So go our farmers, so go our local economy. We continue to see very little deferrals from a COVID standpoint, either on a personal side or on a commercial side, very few on the deferrals as far as residential or commercial loans. We are in excellent shape on

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

the loan portfolio. Do continue to work with our borrowers, though. Actually our mortgage department has been extremely busy, as I'm sure everyone else's has, too, with refinancings given the historic interest rate environment that we're living through today.

The biggest thing that we see recently though is just a lack of inventory throughout our rural counties that we serve. We do continue to have an influx of individuals moving from some more populous centers, trying to find country living. And so they have chosen to come to this part of the world for that.

It's really put a strain on housing inventory, so it will be interesting to see how that shakes out over the next few months, especially given at this point in time very high building costs associated with increased lumber prices and the whole service framework that's set up around home construction in rural America, so right now that's looking very well.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

We continue to work with our customers on satisfying the forgiveness aspects of their PPP loans. Our experience with the program was pretty well limited, just because there's not a lot of retail in the communities that we serve and because of that, that was a pretty small amount. But now we are starting to get those turned in and have recently began to receive some of those back through the SBA, so that's going good.

Again, right now with farming being really on top of its game, that's really helping to lift all of the boats in this particular part of the world. I, too, just like my good friend that just went in front of me, want to thank the Chairman and all of the FDIC staff for allowing me to participate on the committee for the last couple years. It's been a great experience. Wonderful bankers from across the country, all trying to do those things that benefit all of our communities around this country. I'm very

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

thankful to participate and be a part of this.
Thank you, and have a great day.

MEMBER SHETTLESWORTH: Hey Bruce, thank you. This is Alan Shettlesworth, I'll take it from here. Alan Shettlesworth, President and COO of Main Bank here in Albuquerque, New Mexico. Bruce, I'm glad to hear from you and Thomas, that your respective banks are doing really well. Glad to hear it. We Main Banks have one location here in Albuquerque and we do mostly commercial real estate-related transactions.

Prior to COVID we were about \$180 million in total assets, so roughly at the end of the March and today we find ourselves at \$214 million in total assets. We thought by this time this year we would've already shrunk closer to \$200 million in total assets, but that has not materialized. We even raised additional liquidity, about \$15 million from the Federal Home Loan Bank. We paid that back last month and we're still awash with liquidity. That's a real

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

problem to have, but it's actually a wonderful problem to have in this environment.

I can't quite explain this, because we're going to end the year with a record year. None of this makes sense. Record year from profitability, record year from loan growths and customer growth across the board. So that doesn't make sense. We thought we'd have a lot more problems than we do right now. We don't have any, knock on wood. We just filed our Call Report yesterday, and there are no delinquencies, no non-accruals, no past dues, and that's just odd for me to say that in this environment.

The community here in Albuquerque and in New Mexico seems to be picking up. A lot of the transactions that we had were going up until about March and it seems like they plateaued or stopped or paused, I guess you could say, from March until about two months ago. Then we've seen a real pickup in actual real commercial loan demand, not just federal stimulus or grant

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

programs. We suspect outside of the PPP program that we will finish the year with an actual real net loan growth compared to where we were last year.

Honestly, the challenge for us right now this year is just maintaining our same level of customer service with the relationships that we have already won. One of my biggest fears is that the community will forget or that the nation will forget or that the federal regulators will forget the impact that the community banks had on our communities with this PPP program. We clearly hit above our weight when it came to winning this stimulus for our local businesses.

Wells Fargo, for instance, is the largest depositor in the State of New Mexico, and I did not hear of a single dollar that they got out from PPP in Phase One. So it was up to the community banks to really help stimulate the local economy. I'm just so thankful that we had the opportunity to do that. I just hope that we

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

don't lose sight of how impactful this effort was by the community banking industry in the next couple years. That's my concern overall for the community banking industry.

We're currently staffing up. We hired a net new employee within the last month, and we have another additional employee starting tomorrow, which is actually great news. We will go to a whopping total, where we were 15 before, to 17 employees by tomorrow. That's a small number of employees, but for us that's big. We've never been at these employee levels. I'm happy to say that things are moving in the right direction for us right now.

We did increase our provisions. We increased those starting in March. We've doubled them from what we were budgeting, and we are going to double them again this year. Again, we don't think we have any problems right now, but I don't think we, or I don't think the banking industry really knows what problems we have until next

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

year. We're trying to do that preemptively.

One of the other challenges we've had is capital. Because we've grown so much in such a short amount of time, our retained earnings haven't been able to catch up. We're contemplating a small capital raise just to go ahead and beef up our capital ratios. While we really do appreciate and thank the FDIC and all of our federal regulators, state regulators for obviously giving us flexibility to work with our customers and not put any pressure on us.

We're very thankful of that effort and I can't express enough to you all how significant that was so we did not have to focus on regulatory matters. We could focus on helping our customers. So, that was a huge thing for us, and we appreciate the efforts that you have made and we hope that effort continues, but I don't think that that effort goes on indefinitely. We are trying to be cautious and do the right things for the bank and for the community. With that said,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

I'll conclude that we are surprisingly very bullish right now. We're still very skeptical that things could get worse, but right now very bullish and looking forward to next year. That will conclude it for me. Thank you.

MEMBER WALKER: Thank you, Alan. Louise Walker with First Northern Bank here in Dixon, California. I'm so glad to be here with all of you today. Thank you, Chairwoman McWilliams and all of the FDIC staff for your continued leadership during this time, and for especially your focus on ensuring an inclusive banking system. With three more months behind us, it appears that our regional and local economies are faring much better than we anticipated several months ago.

The government stimulus certainly has helped small businesses, but for some the concern is how long they can hang on without additional stimulus assistance. As I travel around the Greater Sacramento region, I hear small business

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

owners concerned about the possibility of additional shutdowns and whether that will mean the end to their businesses, which means the end to their ability to pay their employees.

First Northern Bank and many others in our region remain open for branch traffic, but the back offices continue to work in a work-from-home status. Our front-line employees continue to be remarkably resilient and simply amazing, providing exceptional customer service to our customers.

The last time we spoke, I mentioned several loan types that we anticipated seeing significant deterioration. I'm pleased to say that it really hasn't occurred or materialized. For example, we thought office, retail, special-purpose loan types like churches, hotels and gas stations would be devastated, but early indications show these businesses are going to be at break-even or maybe better.

Like many other community banks, we

offered a temporary payment forbearance program for our customers. The forbearance period has ended for some of the business customers and they have resumed their payments. Many others return to contractual payments in October and November, but we remain optimistic that they will be able to make their full principal and interest payments.

We have also been processing PPP loan forgiveness applications. Out of the 1,320 loans totaling \$235 million, we have processed and submitted over 300 applications totaling so far about \$60 million to the SBA. This week, we started receiving funds for about \$3 million. In general, our loan pipeline continues to be steady and, of course, competition continues to be robust.

An area that is doing exceptionally well is the residential and multi-family construction area. Even amidst the financial havoc from COVID-19, local economists express

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

optimism for recovery. That's because in this region, while they're still trying to reduce their dependence on government jobs, we're attracting an accelerating number of workers from coastal urban hubs in search of a more affordable housing situation.

Really it's the Bay Area exodus to Sacramento, and that's really nothing new. Many work at California technology companies, many of which are not only encouraging remote work, but they're also telling their employees not to stray too far from home. Facebook, for example, has been telling employees that they want to open up more remote work, so as long as employees live within a four-hour drive of Facebook then that's fine.

So what we're seeing is, since we're only about two hours from their headquarters, we have a lot of those individuals moving our way. This certainly continues to be a bright spot for the few community banks in our area that continue

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

to offer mortgages. I know our mortgage division has been extremely busy with purchases and refinances.

Another area that has been strong is the healthcare and education sector, as well. We still have some road to go before we know the full impact of the pandemic on our communities, but we are excited about the opportunities that exist here for community banking. Yes, we can provide the digital experience, but there's so much focus on that from others right now, we think it really creates an opportunity for community banks like ours that are focused on relationship banking, because it is a people business.

I just want to conclude by acknowledging my regional director, Kathy Moe, and our field supervisor, Andrea Davis, for their tremendous leadership during the pandemic. They have been proactive, and they appreciate the challenges that we're facing and are extremely accommodating to our needs. We reach out to them

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

when we have questions and also if we want to share some insight into what we're experiencing.

They are knowledgeable, reasonable and understanding, and I'm grateful for our relationship, which is one built on mutual respect and understanding. I just want to say thank you. It's been an honor to serve with all of you, and it's just been a great experience to be on this committee, so thank you.

MEMBER EPSTEIN: Good afternoon, Keith Epstein with Roxboro Savings Bank in Roxboro, North Carolina. I would like to echo the comments of the four that have gone before me and say that it truly has been a privilege to be a part of this distinguished group, and I very much appreciate Chairwoman McWilliams' leadership during this national crisis. I have enjoyed the opportunity, as well, to meet Director Gruenberg when we were able to meet in person at the meetings last year, and the entire staff has just been so accommodating, and I certainly appreciate

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

that.

We are a 97-year-old mutual savings bank, \$254 million in assets, based in Person County, North Carolina, which is located in the far northwestern corner of the Triangle Region. Durham County adjoins Person to the south and serves as an important secondary and high-growth market for our bank.

Both of our offices are operating in a modified pandemic mode. We continue to encourage customers to utilize our digital, phone, ATM, drive-thru, other alternate delivery channels, but we are open to the public and inviting customers in with appropriate social distancing, wearing masks, and so forth. The customer relief programs that we introduced in the early days of the COVID-19 outbreak are still in place. We are offering deferrals, but fewer customers have opted to defer loan payments with each passing month.

We peaked at 7.3 percent of all

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

borrowers in April, and today we do not have any that are in deferred status. The fortitude of our borrowers, in particular the small business owners, has really been nothing short of inspiring. The unexpected deluge really, of mortgage refinances which flooded into our bank when rates fell in March show no signs of slowing. The secondary market sales revenue has surpassed 900 percent of our budget just through the month of September.

Even more surprising has been the continuous growth of our local housing market year over year. The average sales price is up 11.4 percent, and month's inventory is down 38.1 percent to a remarkably low 1.3 months per the September Triangle multiple listing service report. The shortage of inventory has fueled new construction, which persists despite an increase in material costs, lumber, in particular.

Non-bank mortgage lenders have extended their pursuit of market share beyond

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Durham and Chapel Hill into Person County. In August of 2019, 53 percent of all mortgages in our county were originated by local lenders, as compared to only 39 percent this August. Rocket Mortgage has recorded the fourth-highest number of real estate loans in our county, and the State Employees' Credit Union ranks second.

We have addressed competition by investing in an online mortgage platform and focusing on the relationships that have seen us through countless cycles in the past. New construction, rural properties, smaller loans, more complex transactions, that's the space where we really have something unique to offer the market.

The pandemic is not the only disaster scenario which had been hypothetical up until this year. Recently, cyber-attacks have hit Person and Durham counties, our local junior college, and our core system provider. The Register of Deeds in both countries closed for

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

days and weeks, respectively, while damage assessment and data recall were conducted.

The disruption to our business was limited to loan closing delays, but the experience was sobering for all that do business and interact with county government. The junior college successfully defended itself, and our core provider preemptively took the system down, and no actual breach occurred. We took action to mitigate the disruption to our customers by increasing standing card limits and communicating status messages via our website, phone service, and social media.

Earlier this year, we initiated perpetual social engineering testing to help our staff develop the awareness and skill necessary to avoid and detect harmful emails. But with that said, we realize these attacks are ubiquitous and hope to enhance our defenses further, and also contribute to practices in local economy that will minimize risks to our

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

business community.

The fundamental value of knowing your customer has never been more relevant in our local market. Large national banks have reduced open customer credit lines, tightened their underwriting standards, and in some cases, retreated from consumer lending altogether. They are apparently unable to determine the financial condition of our friends and neighbors, but fortunately we know these people and we know them well. I'm happy to report that the vast majority are doing well, and we are certainly committed to continuing to provide them with credit and other financial services. Thank you very much for listening. Appreciate it.

MEMBER GETZLAFF: Good morning. I'm Sarah Getzlaff. I'm the CEO of Security First Bank of North Dakota, which is a \$200 million community bank in rural North Dakota. I'd like to start by thanking Chairman McWilliams and the FDIC for this opportunity. In North Dakota, our

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

economy has been rebounding. We've had a really good summer.

Most of us tend to spend as much time as possible outdoors in the summer in the few nice months that we have, which probably really helped us control the spread of COVID early on. But last week the snow already came, and that will keep many people indoors. I'm sure you've seen on the news that North Dakota is spiking. The governor keeps saying it's because we're doing more testing, but I'm not sure if that's a way to keep us positive or if that's really the truth.

Our unemployment rate has come down. It had spiked to 10 percent, but it's now currently at 3.9 percent. With limits recently coming back into place for restaurant capacities and other businesses, I think that that unemployment rate will go back up. Our ag portfolio is in excellent shape. Part of that is due to government payments that our borrowers

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

have received.

Our commercial market is the one that we worry about, not just the small businesses that are failing or that aren't faring so well, but our rental market is tough with employers deciding to keep employees at home permanently. Our largest renter of space, which is the State of North Dakota, is actually taking the lead on that, which is really disappointing. I understand the need to cut costs, but I think that we also need to support our state economy, especially in a time like this.

Speaking of supporting the economy, our Bank of North Dakota, which is the only state-owned bank in the country, has really stepped up. Post-PPP they came out with several programs to help some of our smaller businesses. They came out with some low interest rate loan programs, and then recently they authorized \$70 million to fund retroactive interest assistance to businesses.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Basically you can look back the last six months and whatever interest a business paid on their loan, they could have it completely funded through the Bank of North Dakota, which would, of course, help our bank and many other banks, as well.

The final thing I wanted to talk about, just last week I had the opportunity to be a small business representative on a SBREFA panel hosted by the CFPB for Section 1071 of Dodd-Frank, which of course covers reporting on small business loans. And as I think about what's on the horizon that could affect my bank, I can't help but think about 1071, especially since I just spent 15 hours on it. I know this isn't an FDIC regulation, but it will definitely impact all of us on this panel and every FDIC-insured bank in the country, so I wanted to give a brief update.

I went into the meetings a little blindly, believing that because this is called

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

the Dodd-Frank Wall Street Reform Act that all the small business reps on the panel would band together and plead for a broad exemption so that this rule doesn't unintentionally burden our small businesses, our small banks. But initially a couple of the CDFI reps from large metropolitan areas really controlled the conversation or dominated the conversation, and they asked for the rule to be as expansive as possible to collect data on 99 percent of small business loans, with the thought that it would help as many women and minority-owned businesses as possible.

While I think that's an admirable goal and it's something everybody would want, I think that PPP data shows that community banks are already doing that. We're already helping small businesses, and collecting this additional data will only increase our cost of doing business and it won't change the outcome. By the end of the panel, I was pleasantly surprised the focus shifted in support of protecting smaller FIs from

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

undue burden. We wondered if we really needed 99 percent of the data or could we apply the rule to FIs over \$10 billion first and then slowly expand it if more data was needed. We also wondered about the protection of small business owners and their privacy.

While I'm hoping for aggregate data reporting, I'm not sure that that will come. But I believe that if they disclose at a loan level, there will be major unintended consequences. For example, my hometown, it's the only town in the county. We're the only bank in the county. We have one butcher, one mechanic. If anybody wanted to look at that data, they could easily tell who applied for what loan, how much they applied for, what their gross annual revenue was.

I really think that small businesses are not going to appreciate that. I also think that it will cause them to look for funding elsewhere, maybe with a high-rate personal credit card or maybe they'll go to a bigger bank in a

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

different county, but it'll definitely push loans away from small hometown banks. I know my example is extreme, but I really believe much of America is rural, and there's a lot of counties out there with very few businesses.

I also think that people will look at that data and they'll make an assumption about somebody being discriminated against when that's not really the case. You might have one business starting up that looks a lot like another business on paper, but maybe there's a guarantor for one and not for the other. Or maybe character really takes the decision to a different level for one borrower than the other.

Fintechs use data to make their decisions, but community banks take character into account. You won't see that if you're just looking at data, and I think that there could be a lot of lawsuits just like we saw with bank websites, where there's lawyers just waiting in the wings trying to pick data apart to bring

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

lawsuits.

Finally, I just think that Dodd-Frank has enacted a lot of stuff. The intent was to reign in Wall Street, but we saw with all the mortgage regulations that came into play that what it did was it caused many small banks to exit mortgage lending, which pushed customers back to bigger banks that initially created the problem. So rather than being punished, they're gaining business.

I think that 1071 is the final piece of Dodd-Frank, and I don't want it to be the final nail in the coffin of many independently-owned community banks like mine. I know that's not the intent of the regulation, I just hope that the CFPB understands that, and I hope that through the panel we were able to convey that to them. That is all I have. Thank you again for letting me speak today.

MEMBER NARVAEZ: Good afternoon, everyone. Gilbert Narvaez, Junior. I'm

President and CEO of Falcon Bank. First of all I'd like to thank Madame Chairman McWilliams, Director Gruenberg, Betty Rudolph, and the rest of the FDIC staff here today for the opportunity to participate and serve in this very important advisory committee. I'd like to thank my fellow committee members for their time and their efforts in trying to make a difference.

Regarding our local conditions in this part of the country, our bank is headquartered in Laredo, Texas. We conduct a significant part of our business along the US/Mexico border. The bank's 17-branch footprint also extends into South Texas region, which includes the cities of San Antonio and Austin metro areas. Our branches service communities comprised of predominantly Hispanic population, and also serve many customers in the low- to moderate-income areas.

Being that Laredo is one of the largest ports of entry between the US and Mexico, our international trade and transportation

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

sectors continue to be active and are very important sectors of our operating environment. Other ports of entry along the border serve as additional trade and distribution points.

Although the pandemic has affected the unrestricted cross-border crossings, the bridges remain open for transportation and trade activity and other essential travel purposes. Closure of these bridges to non-trade related business has drastically affected the retail, hospitality and restaurant business sectors of those cities along the border.

Regarding our customers, customer and employee safety is the utmost important to us. We currently are operating as close to business as usual as possible, with some social-distancing protocol twists. We continue to meet the banking needs of our customers. All of our lobbies have reopened for regular business. We still have, however, one-third of our workforce is still working remotely.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

We have grade school programs here that are still operating virtually. We have university and higher education programs being conducted via a hybrid model, on-campus and virtual.

We continue to support our community. We participated in the PPP loan program. We funded over \$35 million loans to over 500 small businesses. We continue to assist local food banks and other civic organizations on pandemic relief efforts.

We also continue to assist borrowers with loan deferral requests and submission of the PPP loan forgiveness documentation through SBA, which has been somewhat of a nightmare for most banks and also our customers, as well. We've noticed an increase in our digital and non-contact delivery channel because of this pandemic, and that's worked well for us.

Our online banking products, our drive-thru and curbside services have really done

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

the trick to service our customers. We've also noted that our customers' spending habits have changed, and that's affected our interchange income as we go forward. Our state's recent unemployment rate dropped from 13 percent plus at the inception of the pandemic. It's now down to 8.2, 8.3 percent.

We're expected to continue to improve unless there's another spike or surge in the virus cases, which is happening in some sectors of the nation. We used to be one of the hot spots, or our area used to be one of the hot spots, and since then it has simmered down and has reopened a lot of the income sectors within our operating environment.

However, that could drastically change in the coming months, which I expect the next six to 12 weeks to be the epicenter of what the virus affects. Other areas and components that are being affected are earnings due to net interest margin compression. They've also been

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

affected. We've also started rebuilding our ALLL provisions, as well, in anticipation for some possible losses. That still remains to be seen.

Our liquidity continues to be very plentiful. Capital, despite the decrease in earnings, we still have very strong, healthy capital levels. The credit quality of our non-performing assets and our delinquency levels are at all-time lows. While it's still too early to tell, there are some concerns on that; as the prolonged effects of the pandemic linger, some of those levels may tend to start decreasing or dropping.

The pace of the economic recovery continues to depend on the longevity of the pandemic. The sooner the availability of effective, therapeutic virus treatments and/or vaccines will be the sooner that we all recover. That concludes my comments. Thank you.

MR. DAVIS: Thank you, Gilbert. Lori, you're up next.

MEMBER MALEY: Good afternoon. Thank you, Chad. Thank you, Chairman McWilliams and Director Gruenberg and all attendees. I'm Lori Maley, the President and CEO of Bank of Bird-in-Hand, a \$550 million bank in Lancaster County, Pennsylvania, with three branches which are brick-and-mortar, and now three mobile bank units. Our bank is approaching its seventh year of providing community banking services to the community, which includes the plain community made up of Amish and Mennonite.

We as a bank were able to assist many of our customers during these trying times. The crisis differed from the Great Recession. Banks during the crisis were friends, not foes. With the help of the CARES Act and PPP, both individuals, as well as businesses were able to stay afloat in our area. As partners, we were able to help our existing loan customers by lowering their loan rates based upon the 150 basis-point decrease in prime rate.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

From an economic perspective, dairy farmers survived, but a minority of them quit milking cows and are working off the farm or growing produce and crops. Core businesses actually did prosper during COVID. Real estate development, both residential, as well as commercial, continues to thrive. However, supplies and inventory still seem to be a problem. Lumber prices, which had gone through the roof initially, seem to have backed off a bit recently.

We have seen a resurgence in the tourism industry in Lancaster. However, there are still restrictions as to restaurant seating and occupancy still in place at this time. Unemployment is still very low in Lancaster County, which is evident by the Help Wanted signs in many businesses. Economic health is evident by the bank's pending loan report, which topped \$13 million for the month of October.

This indicates that businesses

continue to move forward with some level of confidence. Loan volume, as well as asset quality for us remains strong. We had one delinquent loan 30 days past due as of 9/30.

We do ask for the FDIC's assistance in reconsidering the Amish Aid Policy use for flood insurance. Our competitor OCC banks and Farm Credit banks have politely informed us that they are eating our lunch regarding these loans. I know the intention was not to put FDIC banks at a competitive disadvantage. However, the result is that we estimate we have lost at least \$2 million in Amish loans to a local OCC bank since last year. The Amish customers that bank with us are paying flood insurance premiums they would not necessarily have if they banked with an OCC bank. They stay with us, I think, due to their sense of loyalty, but there is a cost to them. So any assistance you can provide in this topic would be greatly appreciated.

The term mobile banking has a

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

completely different connotation in the Amish Country and Lancaster County. On October 5th, our bank launched what we call Gelt Bus No. 2 and No. 3, Gelt meaning cash in PA Dutch. This allowed the bank to bring full-service banking via a mobile bank unit, which is a 34-foot RV equipped with everything that the brick and mortar branches have. This enabled our bank to cover 16 separate locations with its fleet of three mobile bank units.

We changed our plans for the delivery of the new buses by really assigning them to an all-day location in order to better serve customers in remote areas. Our original Gelt Bus No. 1 covers nine separate locations per week, with the hours of business being usually split between two separate locations per day.

Our bank is currently in the final phase of finishing up a Pennsylvania Department of Banking and Securities Safety and Soundness, IT, and BSA Exam, in addition to an FDIC CRA,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Fair Lending, and Compliance Exam. It is amazing how smooth the process is and how efficient the exam teams were in processing the information. It is always better to meet face to face, but under the current circumstances, it was a really fine-tuned process.

Lastly, in August our board of directors decided to commence a stock offering, which began September 14th. Even though the bank had not reached its capital policy triggers to go out for additional capital, the uncertainty in the financial markets precipitated the move to secure capital when the bank believed it was available.

The miraculous thing about it is the bank sold out of the first \$15 million in two weeks. The offering circular provided the option of invoking a greenshoe to expand the offering to \$20 million. The bank closed the full offering at \$20 million in approximately three weeks after the start of the offering. We've actually had to

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

return \$900,000 of subscriptions that came in after the offering closed.

I think this sends a very strong message that our shareholders, both existing and new, believe that community banks have been a source of strength during the crisis. In a time of uncertainty, the investment of people's hard-earned money is a testament to faith and trust in the financial services industry. In conclusion, I would like to thank the FDIC for allowing our bank to be part of this wonderful committee. It is truly an honor and privilege. Thank you.

MR. DAVIS: Thank you, Lori. Kenneth, you're up next.

MEMBER KELLY: Yes, thanks Chad. And thank you Chairwoman McWilliams and Director Gruenberg, and the staff of the FDIC. We really appreciate the opportunity to be before you. And to my fellow bankers, it's great seeing you and hearing from you. I think many of the stories that you will hear will have a resonating theme

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

throughout them.

What I can tell you is in Detroit we have seen a little bit more of a challenge than some of the other cities. For instance, in leisure and hospitality I believe we were down at the end of June about 40 percent when the nation was down about 27 percent. The good news is, though, as we look at the bank, asset quality still seems to remain relatively strong.

Those who went through deferments and forbearance, that number has cinched back. In the short run, it appears that again, many of the same things have been stated previously, are able to make payments. The question is how long will that stimulus be able to hold on. And, in particular, where we're seeing Coronavirus begin to escalate again and may call for the need for again maybe sheltering-in-place type activities, will it dampen the economy going forward? That is a concern that we have top of mind.

At the core bank loan for us, we're

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

having to take some provisions for our ALLL, and those are impactful. We are hopeful we can guide through this. On the technical side, we are working through a three-year plan that will move us from our current core provider to a completely digital format as of April 29th.

We saw PPP and some of the fintechs, as mentioned earlier, move at a quicker pace. We are hopeful that we'll be able to provide services that will be at a lower cost and better convenience to our customers going forward. I think I mentioned asset quality and strategic plan that we working on, but there is one area that I do want to spend a little bit of time on that I think is important.

In many cases it's the elephant in the room, but Chairman McWilliams, I want to thank you for being out front on these topics regarding diversity and inclusion. I just got off a call with your Chicago region on this topic. Tom Leavitt, who opened up this segment, talked about

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

a conversation that he and I had. But, the reality is in a capitalistic society what we know is that economics is the measuring stick and is the one that we determine where there is equality and disparities.

As fellow bankers and, of course, the FDIC, I think all of us can figure out how to lean into that. I'm looking forward to seeing the comments on the fund. I think I've got some input I'd like to share there. But in reality what it is also about is relationships and being sure that there is capability to come along with those relationships that produce positive outcomes.

So when we look at things like net worth and income inequality across gender and home values, et cetera, the data says that we have not been equitable. In this moment in 2020, we believe that there is an opportunity for bankers to be leaders in this, regardless of what your demographic market says. We believe bankers

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

can be leaders in this.

I want to conclude by saying on behalf of my fellow colleagues with the National Bankers Association, where I think I shared this back at the last meeting at the end of July, where our approaches really have been across three priorities. One is equity capital for these institutions. Number two is revenue generation opportunities for these institutions, and then third, deposits.

Putting that in perspective, we've seen companies like Square and Uber move in the right directions to say that they're going to support efforts like the National Bankers Association and income equality going forward. So I just want to say thank you on behalf of that.

As I close, again, when we think about success, it is a measure of not where we are, but where we need to go. Chairwoman McWilliams and Director Gruenberg, we expect your leadership will continue to lead the FDIC as a regulatory

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

agency that we can all be proud of and help us all grow together. Thank you.

MR. DAVIS: Thank you, Kenneth. Jim, please go ahead.

MEMBER EDWARDS: Good afternoon to everybody. I hope you can all hear me. I had a few technical difficulties getting in to the meeting here. I'm doing a workaround on my phone, and I hope the sound quality is okay with that. It's great to be with everybody, even if it is just virtually today. Just as a quick reminder, I'm CEO of United Bank, 115 year-old closely-held \$1.8 billion community bank operating in 11 contiguous counties between Atlanta and Macon, Georgia.

I'll tell you that, as some of you may know, Georgia was one of the first states to reopen after the virus crisis here. Our bank reopened in a fairly normal manner a week or two after the governor lifted those restrictions. We have a very strict mask protocol, and we've been

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

limiting the number of people in any one branch location at any time. But overall, things are coming back to normal and I'm really pleased to see that.

We've had good traffic flows back in our lobby, and to date we've only had about five percent of our over 400 employees that have had the virus. We've not had to close any branches, which is something that we certainly spent a lot of time thinking about and continue to have plans in place if we need to shift people around to do that. I'm just very pleased and grateful that this virus has not impacted us any more than it has so far, although it certainly has been the primary change we've experienced in my banking career, certainly in the last several years here.

Big picture, I still remain I guess surprised, I would say, at how well our customers and our bank is doing. If you had asked me back in March and April would we have these sort of numbers, would our customers in general be doing

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

as well and as healthy financially as they are, I would have said, gosh I just don't think so given all of the headwinds that we have against us in this economy.

It's not booming, but it is quite strong. Just to give you an idea, our total deposits, as many of you who I've heard who have gone prior to me have mentioned, our total deposits are up dramatically, up over 20 percent this year. Non-interest bearing deposits are up over 30 percent, the strongest growth in certainly my banking career in any one year.

Our loans are up about 15 percent. However, when you factor out the PPP loans, which we were a very active participant in that program, when you pull those out our loan portfolio is really only minimally higher. So I wouldn't call loan demand as robust as I wish it was in our part of the world, although certain segments of loan demand are very, very strong.

Past dues, as many of you have said,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

past dues, criticized assets, problem assets, they really are at unbelievably low records, pandemic or no pandemic. Part of that is certainly stimulus money and part of that is just some general underlying strength that remains in our part of the country here, but they are quite low.

Deferrals, which is something we were all concerned about, remain concerned about, but I'm really pleased to say that from a commercial loan standpoint, only about 15 percent of the loans that we deferred initially or at the height of our loans, only about 15 percent of those commercial loans remain in deferral.

Our credit card portfolio, which we are still a community bank that has its own credit card portfolio, the credit metrics on that portfolio have remained surprisingly strong, as well. Our mortgage deferrals have not dropped quite as fast as our commercial loan deferrals. They're down about 40 percent from the high, but

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

we're a large Freddie Mac originator and servicer, so some of those have had pretty generous terms with borrowers. I think we'll see more of those continue to come off deferral as some of those programs come to an end there.

Housing demand in our area remains extremely strong in really all segments, from whether it's speculative construction in one- to four-family or contract houses or just people coming in and wanting to add on a new room to their house. I heard Louise mention the stay-at-home situation had been positive for her area outside of San Francisco. We're outside of Atlanta, and that same thing has happened in our area, as well.

I think people have realized that they're spending all their time in their house, and they don't see themselves, many of them, going back to work in downtown Atlanta offices every day. They've decided they need an independent office in their house, need more

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

space in their house, so they're just spending money there. We've been a beneficiary of that and have been delighted to help a number of customers with those financing needs.

Our permanent mortgage business has just been astounding really. It is up almost 90 percent this year over a very solid 2019. Every night when I leave here, I've got mortgage lenders that are burning the midnight oil that I'm leaving here that are just trying to handle the volume that we're trying to deal with right now. Low rates are really, really driving a lot of that, but again, it's just very, very strong demand.

I think the question in terms of where do we go from here, some of that remains what additional stimulus will we get? I am concerned about the hospitality industry in our area. We have a number of customers that are struggling there, and that really is what the majority of our commercial loan deferrals are. It revolves

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

around primarily hospitality and one or two situations, some private gyms that we have financed, as well.

We are not far from the Atlanta airport, so our area is tied pretty much to the airline industry, with Delta being headquartered here. That's a challenge that we also -- as they struggle and continue to try to fight through the COVID situation and get air traffic demand back up, that's an issue there. The question is how long does it take for us to transition to a post-COVID economy? Will we have some additional stimulus for these really hard-hit areas? That's something that's on my mind as we think about this.

Then ultimately, of course, the big question is when will we get a vaccine? When will we get this virus predominantly behind us and be able to move back to a more normal situation from an economic standpoint? Nobody really knows that. All we can do is continue to

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

work, try to meet the needs of our customers, try to be safe and work hard to do everything we can to help that day come as soon as we can and help our local economies here. We are very hopeful about the advent of a vaccine that will be effective here.

As I look towards next year, I have to say, I've heard a couple of the other bankers say they're concerned about the net interest margin. That is certainly going to hit us. Even without the increase in negative credit situations, if we continue to have very strong portfolios -- credit metrics, we're still probably going to have lower earnings next year. That's simply because of the significant contraction of our net interest margin.

Our deposit rates are down. I don't see us being able to affect those very much. We do see both on the loan portfolio earning rates, as well as bond portfolios, that's going to continue to come down. That is certainly a

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

challenge.

I will just say in closing that this is my last meeting, as well. I want to thank Chairman McWilliams, Director Gruenberg, the other FDIC staff. It's just really been a real pleasure and an honor to serve on this committee. I've enjoyed getting to know all of you better. I appreciate all that each of you do for our industry. I've very much enjoyed getting to know all of the bankers that I've served with on this committee.

It's astounding to me how often when I hear you speak I realize it doesn't matter whether you're in Washington or Texas or New York or Georgia, so many of our challenges and opportunities are the same. It's been great to get to know you to hear those comments. I'll just close with saying I'm very much looking forward to seeing all of you again in person in the hopefully not too distant future. Thank you.

MR. DAVIS: Thank you, Jim. Stephen,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

you're up.

MEMBER HAYES: Okay, are we on?

MR. DAVIS: Yes, we can see and hear you.

MEMBER HAYES: Great, thank you. Like I said, my name is Steve Hayes. I'm the President and CEO of Dakota Prairie Bank. I'd first like to begin by saying thank you to Chairman McWilliams and Director Gruenberg and the staff for giving me such an opportunity here. I'm very humbled by this meeting and moving forward. I just again want to thank you for this opportunity.

Dakota Prairie Bank is located in central South Dakota. It's a third-generation family-owned bank established by my grandfather in 1906. We have roughly about \$115 million in total assets, with 60 to 65 percent of our total loans in agriculture, and the balances are in the commercial and the consumer portfolio. We have four locations, all located in central South

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Dakota, probably within 30 to 50 miles apart from one another.

Three of our branches in our communities with a population of 500 to 800 people. Our main office is located in a community of about 2,200, and it's just adjacent, across the Missouri River from the capital city of Pierre. We're really close, work together with a community of about 10,000. Again, that's where most of our commercial and consumer loans are located.

COVID, we started just like everybody else. In March, we shut down. We reopened in June. We had a lot of people working at home. We had the lobbies obviously were closed, and then the drive-ups were very, very popular. Today, Sarah from North Dakota mentioned about an increase in cases in North Dakota. We're seeing the same thing in South Dakota. We're dealing with that as we go. We don't have anybody with COVID that has left the bank, so we're holding

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

our own so far.

PPP loans, we were able to put together about 50 loans, averaging about \$30,000, with a total amount of about \$1.35 million. We had about 24 loans that we extended up to 90 days, and most of those were commercial, particularly the restaurant business then the consumer-type loans that people were laid off. Those have been taken care of, and we've been seeing some pretty good progress on some of these past dues and extended loans.

One of the things I want to bring up, and I call it, without a better topic or a title is COVID eye-opener. Out here when you go to the grocery store during March, April, and May and you've seen the meat counters completely bare, what was there was very, very expensive. You realize that the pandemic is here. You just don't see that very often.

The food chain, as you've talked about, has been broken. The restaurants, the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

schools were closed, unable to use any of the meat. Smithfield, some of you have heard that, was shut down, one of the largest pork plants in the country, located in the eastern part of the state in a community called Sioux Falls. That had a huge impact on us.

What has the bank issues during COVID? We've increased our loan-loss reserve. A lot of that is due to the loan growth and also the qualitative factors related to COVID. Otherwise, our net interest margins are holding. I'm seeing a little down-tick on them a little bit, but overall I think our net interest margins are holding pretty well.

We have increased in loans and deposits. Our loans have been -- some of it's due to PPP, some of it's due to the pipeline loans that we bought back from participations so old that we bought them back on our books. Deposits, kind of exciting. We've had a tremendous amount of increase in deposits. Some of it's due to the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

COVID. But in December of 2019, we opened up a branch in a community of 800 people.

They had not had a bank since 2009. A large metropolitan bank pulled out. Now granted, some of these people with the technology, they were getting their banking needs met, but I think there was a comment made about relationships there. It's also about brick and mortar for us out here. That has really been huge. It's truly exciting to come into a community that hasn't had a bank for, like I said, 10, 11 years.

One of the challenges that we're faced with, and I know you hear a lot about credit unions and farm credits, but man, I'll tell you what, out here we've lost some pretty good ag-real estate loans to Farm Credit. It's a challenge, to say the least. They've been offering 1.5, two percent with no fees, no appraisal fees, turnaround times basically overnight. We've lost some pretty good loans that we had sold off, as well. I'm not going to

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

get into a lot about this other than it really has been a challenge for us out here.

Economy in our market area, we're primarily ag. Grain producers, livestock producers, that's basically who we are. Like I said, we're over 65 percent ag. 2019 we had severe flooding, which meant we couldn't get our crops in. The ones that were able to get in, they couldn't harvest it because underwater. Livestock producers lost a lot of their baby calves due to blizzards and the flooding.

So it was not very good, but what really helped us out here was the market facilitation payments. That was helpful. 2020 looks really well. I think Bruce mentioned about that, is our ag economy looks really much better in 2020. Actually we're in a modest drought, but things look really good. Our yields, and they're just in the process of starting their corn, and things are looking really good.

What also, though, has helped is that

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

food assistance program that started in September of 2020. Commodity prices, we've seen an uptick on our commodity prices this year, so corn and beans and so, I guess you've got to take advantage of an opportunity. It may only last a day or two, but it has seen a tremendous change and a tremendous turnaround.

Because of that, the depressed commodity markets and others in the ag-sector, we see more and more people working outside the farm, either helping with the family living or their health insurance. We're seeing that more and more all the time.

I'd just like to conclude with a couple comments or a couple things that's really had a positive impact on us out here. One was part of the Regulatory Relief Bill of 2018, raising the appraisal threshold on ag-real estate from \$250,000 to \$500,000. That was absolutely a huge benefit for us. It helped us compete with the Farm Credit Services on an appraisal

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

turnaround time. Because, out here, for appraisals it takes a little while to get the appraisers because we just don't have abundance of appraisals in our area.

The other thing that it's really exciting to be a part of in South Dakota, and I think other trade associations in other states are working on this. It's called the Emerging Leaders Program, getting our young folks. I think it was mentioned back in July meeting that we needed to get the young folks involved. Emerging Leaders Program is done really, really well.

Started the last couple years and excited to get the young folks involved, whether it's in the rural communities or in the larger communities. I always say our greatest asset is our people. If we can help a succession plan and beginning with our young folks, that's what it's all about.

With that, I want to thank you so much

for the opportunity. I look forward, I hope, to meeting all the fellow bankers that are on the call today and the rest of the staff. I really appreciate this so much. Thank you.

MR. DAVIS: Thanks, Steve. Fred, you're next.

MEMBER DEBIASI: Thanks, Chad. Good afternoon. I'm Fred DeBiasi, President and CEO of Valley Central Bank. Valley Central Bank is a \$155 million mutual savings bank located in Liberty Township, Ohio. We're about 20 miles north of Cincinnati. Just wanted to say with the pandemic, unfortunately since our last meeting in July, we have been impacted by COVID. We have had several employees test positive for the virus, as well as a couple of directors.

Fortunately, the safeguards we put in place back in March has assisted in stopping the spread of the virus amongst our staff, but yet we have been affected for the first time. Our area in Southwest Ohio is considered a hotspot, both

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Butler County, where we're located, and Hamilton County, where we also have offices.

I think some of that has to do with the time of year and the fact that Miami University is headquartered in Butler County, as well as the University of Cincinnati is in Hamilton County. Both of those universities are a big part of where the numbers are spiking. But yet, we are seeing some uptick across the board.

The good news, we are having a record year financially and that, despite us increasing our loan loss reserves by 10 to 15 percent this year due to the uncertainty of the pandemic. Yet we are still having a very strong year, a lot of that driven by mortgage loan activity and the low rate environment. Our pipeline has been robust, really since the start of the pandemic and then continues to grow unabated.

I think we've also, in our area of the country, really since the last crisis we've had low inventory in housing, and housing demand is

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

up now with the low rates, coupled with the low inventory. Housing starts in our region are extremely high and really not able to keep up with the demand for housing. It's certainly impacted us from a positive standpoint.

Again, we have had deferrals with the pandemic. Those seem to have leveled off. Delinquency and credit quality still remains healthy and at acceptable levels, and we're pleased with that. We did also have our first fully remote regulatory exam that was just completed recently, or almost completed, with the State of Ohio Department of Financial Institutions.

I have to say, I couldn't have been happier with the way that exam went in terms of the efficiency, in terms of the smoothness of it. I'm hopeful that this is a paradigm shift in the way exams are conducted and not just a response to the pandemic. With our size institution, we've been kind of crying uncle for years that

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

it's very difficult to have eight to 10 examiners on-site for two to three weeks for safety and soundness.

We just felt there had to be a better way, and I think it's coming to pass now that there is a better way with technology and with the ability to communicate remotely. We're hoping again that this will be a paradigm shift going forward. We think it was one of the positive things that have really come out of a bad situation. Unemployment in our area is down now to around between 7.5 to 8 percent. It had spiked up during the height of the lockdown. It seems to have stabilized somewhat.

I think the recurring theme is that we're all kind of holding our breath. Things are going really well right now. 2021 still seems to be a little bit of a wild card. It makes it very difficult to budget and forecast when you really just don't know what next year is going to bring. I think Director Gruenberg alluded to it, that

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

the next six to twelve months are going to really be telling for where this thing is headed and the impact it's going to have on our industry.

We're bracing for it, to be quite honest with you. While we're having a record year earnings-wise, we're not just resting on that laurel. We understand that next year could be quite a different picture. Otherwise, we feel good about where we're at. We do have four offices, four fully functional offices and one loan production office. One of our offices is still lobby-only due to just concerns and staffing issues with the pandemic. The rest of our offices we have opened our lobbies and are offering full service.

We're kind of a hybrid in terms of a lot more of our employees from a back room standpoint are working from home and working remotely. We found that that's been productive, as well. Obviously our front-line staff are coming in to serve our customers. We do have

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

quite a few staff members that are working remotely at this time.

With that being said, again we feel that we're taking a cautious approach with loan loss reserves and making sure our liquidity is strong, to again head off anything that might come our way.

I'd like to close again, as some of my fellow bankers have mentioned, this is also my last meeting. I would like to express my gratitude to Chairman McWilliams, Director Gruenberg, the FDIC staff for the opportunity to speak and be a part of this committee.

It's been a wonderful experience. I couldn't have imagined someone from a little town in Southwest Ohio would have this opportunity, but I'm very grateful, thankful for the opportunity. I've met some wonderful bankers on this committee, the incredible staff at the FDIC. I couldn't be more grateful for that, so thank you, Chairman McWilliams. Thank you to Director

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Gruenberg, the FDIC staff and my fellow committee members. I wish everyone all the best as we head into the home stretch here in 2020. I wish everyone a very successful 2021, and everyone stay safe. Thank you.

MEMBER ANDERSEN: Thank you, Fred. I guess it's my turn. Thank you all so much. I so appreciate everything that I've been listening to on this call. Thank you, Madame Chairman and all the committee members. I'm Shaza Andersen, CEO at Trustar Bank. We're located in the Washington metropolitan area. We are still considered a de novo bank. We opened last year, July of 2019, and we opened with three locations in this market.

I'm so proud to say that we are currently over \$300 million in assets. We have grown about 127 percent since the end of last year. Most of the growth has been growth through our former customers. Only 30 percent of that growth has been through PPP.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Talking about PPP, we're back into it. We're now doing all the forgiveness applications, and I'm really interested in hearing what the SBA has to say a little bit later. But we were able to help about 300 small businesses in our community as a de novo bank, and are really proud that we were able to jump in shortly after we opened our doors and process all these applications.

From a market and economy perspective in the Washington metropolitan area, I would say our economy has been fairly resilient. I think I mentioned that at our last call, as well. I'm pleasantly surprised to see that businesses have continued to thrive. Obviously restaurants and hotel industry are not the same, but I think that some of them are coming back.

From a bank perspective, we offered our customers deferrals, and we only had five customers that took advantage of the deferral, which leads me to believe that they don't need

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

it, which is a good thing for our market. Having said that, from a bank perspective our pipeline is huge -- the loan pipeline, the deposit pipeline. So I feel really good about where we are as a bank. I don't know what the future is going to hold.

Obviously we're a community bank and we're not doing loans to the big major real estate businesses that own buildings in DC, but I understand that the vacancy after COVID has increased. And so, I'm not really sure how businesses are going to behave. Since a lot of them have been able to work from home, I wonder if they'll pay the money to go back into an office type of situation.

For us as a bank, we've been open since COVID. I feel that we're like a grocery store. Customers need us and we need to be there for them. We've been mindful about social distancing, so we've been rotating people coming in and out of the office, but we've been open

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

through the whole pandemic. So far we have not experienced any problems.

As far as the -- I'm just trying to look at my notes, I apologize. As far as looking ahead, I think that because we're new we didn't take advantage of the real estate booming market, but I'm pleased to say that we've come into an agreement into purchasing a small mortgage company. I'm hoping that we'll be able to take advantage of whatever is left of that. I think homes in this market, they go up and I think there's a bidding war to try and buy those homes. It's all positive, but then you hear the doom and gloom, and unfortunately, all the people that are getting sick and losing their job. So I'm pleasantly surprised that our market has been resilient and we've been able to continue to conduct business and be able to help our customers and our community.

With that, I really thank everyone. I thank the people that are leaving us today, and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

I'm really looking forward to meeting with you guys in person whenever this whole pandemic is behind us. Thank you all, and I appreciate you letting me speak.

MEMBER PITKIN: Well good afternoon all. Hopefully you all can hear me.

My name is Mark Pitkin, President and CEO of Sugar River Bank. We are located in Newport, New Hampshire. First, I wish to thank Chairman McWilliams for your participation in nearly every virtual meeting I have attended over the last 30 days. Your support and guidance, as well as that of the Board and your entire staff, has been critical in allowing community banks across the country to focus on the needs of their customers and communities during this challenging time.

As an introduction, Sugar River Bank is a \$335 million mutual institution with six branches spanning from the west part of the state to the central part. As I mentioned at our last

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

meeting, we proudly are celebrating our 125th anniversary this year. An anniversary that I can assure you we will never forget.

While the bank remains vigilant and focused on strict safety protocols for customers and staff, the bank's branch footprint has fared quite well compared to national COVID-19 statistics. We have less than a thousand coronavirus cases in our counties, and we have a total of 28 deaths since the beginning of the pandemic. Similarly, state and county unemployment levels, at 5.1 percent and 4.6 percent, respectively, as of October 22nd, continue to drop significantly from the pandemic highs, which were 17.2 and 13.6 percent.

Also of note, is New Hampshire's back-to-normal state rating, which is calculated by Moody's Analytics, which places us in a strong seventh position out of 50 states. The governor and his appointed COVID task force have been consistently loosening many, if honestly not

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

most, of the restrictions that were placed in the early stages of the crisis, and this includes now allowing up to 100 percent occupancy in restaurants and lodging facilities.

So, that said, the heavily trodden restaurant and hospitality industry continues to face challenges, but like others have mentioned, it is beginning to show signs of improved earnings. So, when other commercial segments of the bank, while they are still suppressed from 2019 levels, we have recently noticed an increase in loan volume and requests, many of which are supporting growth and expansion, which is a great news, not only for our area, but also the state. Industries exhibiting such expansion include health care and precision manufacturing.

As far as local non-profit organizations, it is probably not a surprise that many continue to struggle as annual fund-raising campaigns continue to be hindered and in many cases, non-existent, due to the pandemic. Many

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

of those non-profits are actually questioning their ability to survive unless there is additional government stimulus which is provided.

Multi-family lending in our market area, as well as I believe many parts of the state, has moderated over the last 30 days as investors, many of which are migrating from the Boston market, continue to look for properties, but are balking on the purchases due to escalated prices. I know I have heard that from others here today.

And also, due to the state-mandated moratoriums on evictions during the crisis, the available housing has become scarce, which is also driving up rental rates and consequently valuations. So, this does raise some concern to us that those rental rates will soon be capped and potentially subject to reductions post-crisis, which will indeed put pressures on debt service coverage.

With a continued, historically low

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

interest rates, the bank's residential mortgage lending continues to be very strong, with near-record level purchase, construction and refinance activity. Also, with more people working from home, we are definitely seeing a substantial increase in out-of-state buyers moving into New Hampshire, in particular, the Lake Sunapee area, which is where we are located. Again, most of those are coming from the Boston area. This migration, coupled with already low inventory, has resulted in over a five percent, state-wide annual housing appreciation rate over the last 12 months, or, I'm sorry, since December of 2019.

It is also worth noting that increased lending activity has stretched our appraisal turn-around times from 14 days to four to six weeks. So, that has been somewhat of a challenge -- a challenge managing these purchases, as well as the expectation of our customers during this very busy period of time.

As others have mentioned, we have been

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

in the process of preparing for and accepting PPP loan forgiveness applications. We've accepted 88 forgiveness applications, which represent 36 percent of our total of 245 PPP loans. Also of note is 86 percent of those total loans do qualify for the 3508 simple form as they are under the \$50,000 threshold. So, again, good news for many of our PPP borrowers, as well as the capacity restrictions that we have here at the bank. The biggest concern of many of those borrowers, however, has been the unanticipated requirement of deducting the EIDL advances from the forgiveness amounts. So we are working through those particular cases.

The bank's asset quality remains strong. Of the 50 loan deferrals granted during the midst of the crisis, only a single residential loan with one more interest-only payment due in November remains. All of the borrowers are successfully making regular payments. Adversely classified assets to

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

capital, non-performing assets, as well as delinquencies remain at historic lows, which I believe is indicative of most banks that are located in the state.

Particular attention has been placed on the analysis of our ALL to best ensure we are reasonably factoring in any lagging credit risk from the pandemic. It is noted that the average percentage increase to the ALL by New Hampshire banks less than 500 million in assets from 12-31-19 to 6-30-20 is seven percent, according to a recent report from a regional accounting firm. So we are noting that people are bolstering appropriately, I believe, their allowances.

Lastly, as the COVID-19 pandemic continues, the bank remains vigilant in its fraud prevention and detection efforts. I will note that as of late bogus unemployment claims are the most frequent fraudulent activity that we are detecting. And I believe that is true of many New Hampshire banks as the New Hampshire

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Employment Security has reported that it has detected a total of 6,000 fraudulent claims since the crisis began.

So, that is my report of things going on here at the bank, and our market, and the state, and as many others, I truly thank you for allowing me the opportunity to share what is going on and I really appreciate working with all of you on the committee.

MEMBER MONGOLD: And it's my turn.

Hi, I'm Patty Mongold. Not sure, I don't seen the video. Hopefully you guys can hear me. But, Patty Mongold, Mount McKinley Bank in Fairbanks, Alaska.

And, Alaska is one of the states that has seen a dramatic growth in positive cases of coronavirus in the last few weeks, unfortunately. We still have travel mandates in place. When returning to Alaska, residents must get tested right away. They don't have to quarantine, but they do have to social distance until the test

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

results are returned.

If you are a non-resident traveling to the state of Alaska, you have to bring negative test results with you and that test has to have been conducted within 72 hours of your arrival in the state of Alaska.

The --- other than that, the state is pretty much open. There is not a lot of requirements on businesses to social distance. There is no mask mandate in place that is state ordered. So most organizations are business as usual. They are conducting meetings with social distancing enforced in place. They are -- and I, most -- for the most part, masks are worn and they are requiring them but not enforcing that requirement. It is kind of interesting.

The bright spot in the numbers for coronavirus in the state of Alaska is that our hospitalization rate and our death rate remain low. So, that is a good thing. We are watching that closely to hope -- hopefully that doesn't

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

increase.

Mount McKinley Bank made 385 PPP loans for about 39 million. We began submitting the forgiveness applications on September 14th. We've now entered 33 applications for forgiveness and had the SBA confirm payment on eight of them. However, four of those loans did have the forgiveness amounts reduced due to the borrower having received EIDL funds. Something that the bank, nor the borrower knew was going to happen, so our understanding that those EIDL funds would be forgiven and if the SBA would carry the remaining balance on their books, rather than the banks having us carry the balance on our books. It has caused some difficulty with our borrowers -- those ones affected -- because they do now have a payment due next month and that again was something that they weren't anticipating. And so we're working with them to try to get through that.

We are happy that our nonaccrual and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

delinquencies are down. They were at -- continue to be lower than they were a year ago, so that is good news for us. We did see, interestingly, we've seen some slight growth in our balance sheet between the second and third quarter. We weren't sure we would see that growth, but it's been slight and that goes back to, we've really always wanted to have slow, steady growth, but we weren't prepared for the dramatic increase -- the PPP volume hit our balance sheet and that growth was quite -- took us by surprise.

Our mortgage loan refinance is just booming, much like everybody else's. We see a lot of refinance activity. That pipeline is huge. We see a lot of purchase activity and we don't see any slowing down of that, so, people are taking advantage of these low rates and that's great.

Our liquidity is considerably less than when this committee met last time, but that is by design. We had a tremendous amount of

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

liquidity, and we've been purposely trying to reduce that.

We had a bit more cash than we really needed and right now we have -- we still have a little bit more than we need, but we are holding on to it in the short term. We've been buying some short-term investments in order to increase our income over what the Fed funds are paying.

Our -- we are down on income year over year about 6.8 percent, but we are still very healthy. It's still -- our balance sheet looks pretty good.

Right now we're getting ready to start our budgeting process. We're not sure how that is going to go. I believe the expenses are going to be up considerably next year, and, for example we just received our quote for our health insurance renewal and it is up 12 percent. We also don't know what we are going to be doing with our loan loss reserves for the PPP loans -- well, not PPP loans specifically --- but for the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

COVID-19 reserve. We are anticipating increasing that but we are, at this point, trying to determine exactly what we want to do with that. We do expect to have to increase the reserve balance for that.

I would like to say that I appreciate receiving that interim final rule regarding the temporary relief from Part 363, the audit and reporting requirements. I believe we would have crossed that \$500 million threshold at the end of 2021, but we've artificially crossed it well before that schedule, primarily due to PPP. I don't know that we'll be down below that 500 million at the end of the year. I have doubts that we will, but we really feel very fortunate that that interim rule gives us the ability to deal with our splitting out that audit function in 2022 rather than trying to rush and do it for 2021. So, really appreciate that ruling.

At the present, two main concerns really is providing a healthy, safe work

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

environment for our employees. You know, we've only had one positive employee case of COVID-19. We want to keep those numbers low, and hopefully we are taking all the right steps to make that happen. We're also trying to keep our customers safe when they come into the bank, and we want to make sure that we are giving them the tools that they need from a business perspective to be successful, whether it is being with their loans or the deposit products that we have.

And last, I really appreciate the opportunity to participate on this committee. I appreciate the guidance that we have from the FDIC and I am excited to hear from Kathy Moe, our Regional Director for the FDIC. She's -- I really appreciate her support and leadership during these unprecedented times and look forward to hearing from her. So, thank you for giving me an opportunity to speak.

MR. DAVIS: Great, thank you to all of our committee members. In the interest of time,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

I will now turn it over to Shayna, Kathy and John.

MS. OLESIUK: Great, thank you very much, Chad.

My name is Shayna Olesiuk. I'm in our national and regional risk analysis area here in Washington and I will be talking for a few minutes about some of our observations related to the economy and banking trends.

Many of the themes that I've heard over the -- over the speakers over the last couple of hours -- our views are very similar to what you are discussing. So I think that's good that there is a -- we've certainly seen a lot of improvement over the last few months, however we are still very much below where we were pre-pandemic and there is still a lot of uncertainty in the environment that we are in.

So, first on employment. So, as of September the economy has recovered just over half, about 52 percent, of the 22 million jobs that were lost since the pandemic began. The

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

gains have been spread across sectors and the hard hit leisure and retail trades sectors are leading in terms of percentage gains. However, all sectors and all states remain in negative net positions related to their employment relative to the pre-pandemic period.

Now, earlier in the pandemic we saw some unevenness in terms of where the jobs were lost. Most of the job losses were first concentrated in the northeast. More recently we've seen that even out. There is much less difference in terms of how states are faring now. The states closest to pre-pandemic levels, Idaho, Utah and Arizona, are only about three percent below February levels. Many of these states were boosted this summer by driving traffic of tourism. On the other end of the spectrum, Hawaii, California and New York remain farthest below pre-pandemic levels at about ten to 17 percent below those February levels. I think the common thread here is these areas -- many of them

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

also rely on tourism, however they are destinations that people frequently fly to. So, not surprising that they are struggling a little bit more.

Also concerning is the pace of hiring has slowed down this fall. In recent months, one of the sources that we look at is the New York Fed's weekly economic index and this shows a deceleration in the pace of recovery. So, we are watching that closely to see how that plays out in the coming months.

Similarly, unemployment, we're well down below the peak level of 15 percent, earlier this spring. Down below eight percent now for the nation. However, the share of people indicating that they are permanently laid off, as opposed to temporarily laid off, that share of permanent layoffs is increasing. Which, like the pace of slowing -- or the slowing pace of employment growth, also, is somewhat concerning.

In terms of the recession, we'll get

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

GDP numbers later this week for third quarter. And the expectation is for significant growth in third quarter. However, even with that growth, the Blue Chip economic forecast consensus is for negative 4.6 percent GDP growth for a full year, 2020. So, like the employment story, despite the growth that we've seen recently, we are still ending in a net negative position, or that's the forecast for the year.

I'll just touch on a few industries that we're watching and then Kathy and John will follow up on those. So, first, commercial real estate -- certainly an area that we're watching - we're seeing deterioration in demand for most all types of commercial real estate. The one exception is the industrial and warehouse area, which has been boosted by the increase in e-commerce and shopping on-line and those sorts of things.

One of the sources that we look at is CoStar. CoStar shows that property prices across

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

different property types are down currently about five percent from pre-pandemic levels and the forecast from CoStar indicates that these prices are going to continue to fall over the next several quarters. However, the forecast for these property prices, at this point, is that prices -- price declines will not be as bad as the financial crisis, but obviously could be revised further down.

Secondly, on the agriculture industry, like many of you mentioned, the agriculture industry entered the pandemic in a stressed situation, but banks have remained very resilient. Two factors that have helped banks, and many of you mentioned this as well, the support from government payments and the stability in farmland values.

So, with that, I will turn it over to Kathy and John for their comments.

MS. MOE: All right. Good afternoon everyone.

Well, it's great to be here with you. The San Francisco Region -- just for a little bit of background --- includes the 11 Western states from Canada to Mexico, and that includes Alaska, Hawaii, Guam and the Pacific Territories.

It's a very large and diverse geographic area. The region oversees 350 institutions, and the composition of those banks is interesting. We have a lot of large banks. The region has roughly, well, 28 large banks that are over 10 billion in assets and 16 of those large banks are actually state nonmember institutions which we supervise. And those 16 banks represent 65 percent of the total assets in the region.

We also have a good number of minority depository institutions in the San Francisco Region. There are 44 in the region, 30 of those, the FDIC serves as the primary federal regulator. And two of those institutions that we oversee are actually the largest MDIs in the country, and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

both of those are Asian-American banks in California.

Another aspect of the region is we're pretty heavily concentrated in CRE, which we historically always had been, but we also have a big tech expansion. Roughly one-third of the banks in the region have relationships with fintech companies or they have developed their own technologies and I think there's really kind of a range. There is a range from vendor provided, peer-to-peer payments to functioning primarily as a loan originator for a marketplace lender to actually hosting or participating in their own innovational lab or fintech accelerator or developing some of their own modeling.

The -- overall, I would say, though, in the region, banks are definitely implementing more digital lending platforms that's been absolutely paramount and necessary to the banks to compete effectively in this COVID, or telework, environment, and they are leveraging AI in some

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

areas to help with BSA and AML. So, technology overall is becoming more and more prevalent and the use of more data driven technology at our banks is becoming a lot more common.

As Shayna alluded to, the commercial real estate -- we are certainly watching that area very closely. As I said earlier, before the Great Recession and after the crisis and more recently, the region's banks have always been some of the highest as far as commercial real estate levels. Total -- the total loan growth, this year, obviously, has been in the area of the PPP lending. We had 87 percent of our banks in the San Francisco Region that participated in PPP activity. Our loan modifications in the region are stable and represent about six percent of total loans.

No surprise, at our banks, we're seeing banks placing a larger number of loans on their watch list. But we haven't really seen asset quality deterioration yet. The region has

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

very -- has had very high unemployment. Shayna mentioned, some of the states in the region, Hawaii, Nevada and California, hold the first, second and third highest levels in the nation. I've told my staff being number one is not always the best, but we do have other states that have -- have been stronger in terms of the recovery -- Idaho, Utah, and Wyoming and Arizona, to name a few.

We are tracking by state and metro areas the number of temporary and permanently closed businesses and the first state -- the first six states on our list, again, ranked as having the highest number of permanent closures are in the San Francisco Region.

We also have tracked the metro areas with permanent closures. Those metro areas tend to have more tourism-related businesses, but some metros also have higher rents and so, therefore, they have higher fixed costs that make a temporary closure more difficult, leading to the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

permanent closures.

Apartment rents have dropped in some of the more expensive metros and like Louise Walker mentioned earlier, we are certainly seeing an exit out of some of our higher-cost areas, like San Francisco, to more commutable areas in the Sacramento area, and that is having a big impact on apartments rents in the more-expensive areas.

And, again, given that leisure is really the sector that has been the weakest, and it follows that lodging is one of the most concerning areas of real estate in our territory or region. Also, the long-term outlook for office space is somewhat uncertain and complicated depending on exactly what happens with the shifts back to working at -- in the office, or permanent telework.

In the San Francisco Region, like I mentioned, the tech sector really dominates the office market, and we are seeing increased office

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

vacancy levels in our tech-heavy metro areas such as San Francisco, Seattle, Salt Lake and Los Angeles. Office vacancies range from seven to nine percent, and some metros are expected to go even higher. San Francisco has a high percentage of sublease space and 40 percent of that sublease space is what is available now, or vacant now, so that's a concern that we're certainly watching.

The median CRE levels for the region stands currently at 282 percent of Tier 1 capital. That is high, but not the highest that it's been historically, but it is high and any kind of a concentration is something that we always look at closely. Any concentration can have a negative consequence, so we certainly look at all of our concentrations, but, I would say that banks have certainly done a better job of stress testing their portfolios. There's more diversification within the CRE portfolio, and I certainly see some good trends, or positive practices, in that area compared to the last

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

crisis.

We do have some ag in the San Francisco Region. Not the ag that has really been mentioned today, but it's fruits and nuts and almonds, I think, they expect this year to be record production. And, on the other hand, our grapes and vineyards have been impacted from the California wildfires and the -- just the wildfire season overall, across -- up and down the coast, has been pretty significant this year and will have an impact on some industries.

State budgets have been fairly stable. We have seen declines in revenue, obviously from lower tax, sales tax revenues, and states are feeling the strain, but so far they've been able to cut costs and budgets and use rainy-day funds, so we don't really anticipate any huge problems there.

So, I think I want to end on a positive note. Again, banks in the region are very, very active with the PPP program and had strong

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

capital going into the situation. And again, I think the other aspect of the San Francisco Region, we've continued to see some interest in de novo institutions, which to me is somewhat a sign of returning to a new normal, or at least having somewhat of a positive outlook as far as our future. And then finally, the Dodgers won the World Series for the first time in a long while, so, I think I'll stop there and I'll turn it to John.

MR. CONNEELY: Okay, thank you Kathy.

And good afternoon everyone and I appreciate your -- the ability to talk with you this afternoon. I know we're way behind schedule and so I'll try to channel my comments and be pretty succinct.

My name is John Conneely. I'm the regional director in Chicago, and the Chicago Region covers six states, the Midwest. We supervise roughly 670 some odd banks. And, you know, overall, I'll just make really, two points.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

One is just give you an overall on what the region is looking like and what we're seeing. And the big news, and you've heard it from a lot of you today -- is the big news is that there is really not a lot of bad news at this point, at least with respect to bank balance sheets and regulatory findings.

You know, to be sure, economic conditions are stressing commercial real estate markets, bank profitability, and you know that with interest rates going down and remaining low, that's going to be a significant area that we focus on. And it's going to be a big challenge for all of you. Labor markets obviously have suffered, and something that we are very focused on in the Chicago Region is state and local fiscal conditions, which have -- were stressed before in many of our states and localities, but now even more so.

You know, agriculture, we've had some positive, recent news and I think that -- that's

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

-- crops are good, I think that some of that was already mentioned -- and it's been positive results. However, there have been some troubling long-term trends, as far as declines in farm net income and what have you, over the years.

So, but really the big thing is -- the big point is that there really hasn't been a lot of effect yet, on the banks' balance sheets. You know, like many of you, I am sure, are really waiting for the other shoe to drop. We've obviously had massive disruption in our local and national and world economies with rapid and high unemployment, increasing bankruptcies, and closing businesses. And there's really been major shifts in how and where business is being done.

You know, talk about commercial real estate we're seeing huge delinquencies in the retail and lodging sectors, but in the industrial sector, like Shayna mentioned, e-commerce has facilitated or caused the opening of a lot of

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

industrial warehouses and things like that. So, there is a shift going on. But the consequences of that in the community banks that we supervise has really been, so far, muted given the extraordinary measures being taken.

You know, while we've seen some effects of the pandemic, and resulting actions taken by the governments and corporations and individuals on banks, we really don't yet have a good line of sight into the ultimate impact. Overall, earnings performance and capital ratios have declined, as a result of the pandemic and economic downturn, but generally it remains fairly favorable. You know, and community banks actually saw a little bit of an up-tick in earnings.

The most troubling aspect of this in the long term, unfortunately, will be net interest margin compression, and this compression may be exacerbated by the large amounts of low yielding assets that you've taken on from -- for

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

a variety of factors. But capital levels, which were relatively strong going into the crisis, we're seeing some decline. You know, but this has primarily been the result of significant deposit and asset growth rather than operating losses, which is arguably a positive development. Liquidity levels, I think it was mentioned already, they remain strong and better than they were last year, benefitting from some of the same dynamics that have caused the asset growth.

Credit quality indicators continue to be moderate. We really don't see a lot of issues there. The -- we expect that there will be deterioration and there has been deterioration, and I think -- I think it's safe to say that the use of COVID-related loan modifications has been fairly significant and I think indicators are probably benefitting from that. Moreover, PPP and other assistance programs have likely helped businesses continue to perform their obligations.

You know, I could be wrong, but I

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

expect delinquency levels probably will remain muted in the third quarter, maybe beyond. But, as I said, while not yet showing up in the numbers, I think deterioration is happening and the question is where and how much. Obviously, the service and leisure industries are the most immediately affected, but as I mentioned, I think my money is on CRE.

And I think we're not seeing -- getting -- talking about CRE, some of the indicators that we see, and I -- we don't see a lot of delinquency levels increasing on banks' balance sheets, but if you look at some of the delinquency levels in commercial mortgage-backed securities, particularly in lodging and retail, they've seen exponential growth. And one statistic that I saw had noted that commercial delinquencies in the lodging and retail sectors, mortgages underlying commercial-backed -- mortgaged-backed securities -- in February were about one and half percent and three and a half

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

percent. In August, those delinquencies were about 22 percent and 15 percent for the same securities. So, there is deterioration there, it just hasn't made its way up the banks' balance sheets.

You know, so, part of that is COVID-related modifications, part of that is PPP, what have you, but -- so, it's hard to get a clear line of sight, and it is harder, I'm sure, for you and your boards to get a clear line of sight.

Some of the good practices that we've seen banks follow in order to try to get a better sense of where things are going and where deferrals and deterioration is happening, you know, one of the things we've seen is banks really tracking payment deferrals, and other pandemic-related modifications -- stratifying it, by industry, loan type and presenting that report to the board monthly. We've seen institutions implementing pandemic questionnaires for their commercial customers to help identify potential

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

problems proactively, to understand how much pandemic-related stress the borrower is facing and what the borrower's plans are to work through these challenges.

Another practice we've seen is the implementation of monthly surveys to obtain status updates on business operations, liquidity and other significant events. And really, you know, thinking creatively about determining the true financial condition of borrowers and recognizing that historic financial statements may not be a good source of information at this point.

So, those are some of the good practices that we've seen, and it's been our experience that the bankers that we've talked to, the examinations we've conducted, we've seen a lot of good, proactive efforts there.

So, kudos to all of you. I think we're still waiting for the other shoe to drop, we still have a lot of uncertainty, but I think in this

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

pause, both the regulators and the bankers have really taken time to try to determine where we're going to be next, and this lull gives us a little bit of pause to be able to do that.

So, that is my first point, sort of where we are as far as banking conditions in the Chicago Region.

The second point, and I think this kind of gets back to a little bit of what Mr. Shettlesworth noted earlier in the meeting, is forgetting about what's been done, right? So, I really would like to just take a moment to reflect on the efforts that the community bankers and all of you have made during the pandemic crisis. I mean, it's really been beneficial to the communities you serve, as well as the nation as a whole.

In mid-March, the FDIC, all of the regulatory agencies, really, had to rapidly pivot to conducting examinations off-site, and we also paused our examination processes to allow you all

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

the time to address your own resource challenges and operational strategies. For many of you, if not all of you, that also included the addition of the SBA PPP program. In meeting these strategic challenges, really, it's clear to me we would not have been successful without your partnership.

We had a lot of conversations with bankers and we continue to have a lot of conversations -- and with the trade groups. You know, whether it was alerting us to operational changes, raising important issues affecting your institution, working with your borrowers, counseling consumers on deposit insurance coverage, or working with our examiners to enable us to get our examinations on an off-site basis, you really rose to the challenge and I hope it's apparent and based on some of the comments that I've heard here today, I think it is. But please know that the feedback received from you all during this time has really played a vital role

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

in forming the development of regulatory actions and guidance and communications.

You know, and as we navigate through the next few months, we will no doubt face additional challenges, obstacles and opportunities. Nevertheless, I really just wanted to recognize your commitment to serving your customers and value of the services and stability your institutions have provided during these unusual times. The work, of course, is not yet done and neither are the difficulties. There is still a long way to go and in my opinion, obviously, we're not anywhere near the end of this crisis. Conversely, I really don't think we've yet felt its full effects. But, with your assistance we've been able to work through some really trying times. So, I just wanted to make that point.

And with that, I will end my comments.

Thank you.

MR. DAVIS: Great. Thank you, John.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

So, we are behind schedule, but I do still want to try and get everybody, at least, a brief break. So, let's take a break until 3:20 and then we can reconvene and start again.

So, please take a moment, but please be back at 3:20.

Thank you.

(Whereupon, the above-entitled matter went off the record at 3:13 p.m. and resumed at 3:22)

MR. DAVIS: Okay, welcome back everyone. Our next session we are going to get an update about yesterday's MDI Subcommittee. Gilbert Narvaez, Jr. serves on both the Committee and the MDI Subcommittee.

Gilbert and Betty Rudolph, the FDIC's National Director of Minority and Community Development Banking, are going to provide that update. So I will turn it over to you Gilbert. Thank you.

MEMBER NARVAEZ: Thank you, Chad. I

just want to briefly remind the Committee that the FDIC established the MDI Subcommittee under the authority of the Advisory Committee of Community Banking which is CBAC.

The Federal Advisory Committee Act requires that subcommittees provide advice or recommendations to the Agency through the parent committee. Therefore, the MDI subcommittee reports directly to CBAC -- sorry about that -- reports directly to CBAC, which is all of us, and not the FDIC.

The goals of the MDI Subcommittee are to, first of all, serve as a the source of feedback for FDIC on strategies to fulfill its statutory goals to preserve and promote MDIs. Secondly, to provide a platform for MDIs to promote collaboration, partnership, and best practices. And, thirdly, identify ways to highlight the work of MDIs in their communities.

The MDI Subcommittee is composed of nine MDI executives representing a diversity of

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

types of MDIs which include African American, Hispanic, Asian American, and Native American, and a range of business models in size and geographic mix.

The nine members of the MDI Subcommittee represent about 10 percent of all 96 MDIs that are supervised by FDIC. In addition, there are three MDIs that represent CBAC, and those are Kenneth Kelly of First Independence Bank in Detroit; Dick Beshear, First Security Bank and Trust of Oklahoma City; and myself of Falcon Bank in Laredo, Texas.

I have the distinct pleasure and honor of sitting on both the MDI Subcommittee and CBAC, and that's why I'm sharing this update with you today. We do not have any recommendations, but we do want to share with you a summary of our discussions yesterday.

First of all, on July 28, CBAC affirmed that the MDI Subcommittee's endorsement of proposed changes to the FDIC statement of

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

policy regarding minority depository institutions. I want to report back that since then, the FDIC Board of Directors approved the updated policy statement and published it in the *Federal Register*.

I understand that to date, the FDIC has not received any comments, and the comment period remains open until November 24th.

Second, almost all Subcommittee Members shared with the FDIC our observations on that the Small Business Administration has taken a long time in processing applications to do with the PPP program loans. We encourage the FDIC to do what it can to work with SBA to try to expedite these processes.

Third, we also received updates on the FDIC's recent issuance of resource guides titled, *Investing in the Future of Mission-Driven Banks: a Guide to Facilitating New Partnerships*. And now Betty Rudolph will tell you a little bit more about this in a moment.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

We also saw a demonstration of the MDI and CDFI bank locator. It's an interactive mapping system that the FDIC published along with the resource guide. This resource enables a user to explore where all the headquarters and branches of FDIC MDIs and CDFIs are located, and there's also a link to the website.

Finally, we had a discussion about a new mission-driven fund that the FDIC is developing to help channel the hundreds of millions of dollars of commitments that U.S. corporations have recently made to support MDI and CDFI banks and the communities they serve.

And now, we'll turn it over to Betty Rudolph so she can walk you through some of these updates in more detail.

MS. RUDOLPH: Thank you, Gilbert, I appreciate that. And Mike, if you could advance the slides to the next slide.

Gilbert mentioned our resource guide that we just published on October 16. The genesis

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

for this resource guide was the hundreds of millions of dollars in commitments, actually we're into the billions of dollars now, that private companies, large U.S. financial institutions, and others have made to support low- and moderate-income communities, and minority communities, especially through the banks that serve those communities, which are FDIC insured minority depository institutions and community development financial institutions.

And it became apparent to us that many of these companies, the non-banking companies, the treasury departments were really focused on providing deposits because from their perspective that was an easy way to channel funds to MDIs and CDFIs. But not understanding that the significant inflow of deposits could actually dilute capital, and so that is something that many of these mission-driven banks, MDIs and CDFIs, are already struggling to raise capital.

So we wanted to put out this guide to

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

talk about first the roles MDIs and CDFIs play in serving LMI and minority communities, to talk about their business needs, and then talk about ways in addition to deposits that these companies could support these sectors. And so that's what this guide is intended to do. And if you could advance the next slide, Mike. You can find it on our website, FDIC.gov/mdi, and there's a whole section there that has the guide.

And if you could advance to the next slide, Mike. This is just an outline of what the guide has in it. So it talks about the business needs, the strategic options that these companies consider, capacity-building grants, equity investments, investment funds, deposits, technology support and other partnership opportunities.

Attachment A is a really good source of the recent commitments that these companies have made. This is just a sampling, but as I said, it totals in the tens of billions of dollars

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

actually that have been committed to these communities and to these mission-driven financial institutions. Next slide please.

We included in the guide what we call impact stories. These are just short vignettes that talk about selected mission-driven banks and what they're doing in their communities. This one is for M&F Bank located in Durham, North Carolina.

We did circulate the guide to a number of MDI trade groups to solicit these types of stories and also to the MDI Subcommittee members and so we got some good stories from them. Next slide, please.

We also published this interactive map with the guide. We found that a lot of investors and others interested in this sector wanted to know where are these institutions and what communities did they serve. So this map just shows the branches and headquarters for all FDIC insured MDIs and CDFIs.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

You can click on any one of those and if you go to the next slide, Mike, a little white box will pop up. It will tell you the name of the institution, its address, what type of institution it is; if it's MDI, what type; if it's a CDFI, and then there's a link to each bank's website on there as well.

And it has a lot of interactive features. You can click on and draw an area on the map, and be able to drill down on all the institutions within that, download it a spreadsheet and do some analysis. So we've gotten really good feedback that this is a helpful resource for those that are interested in the sector. Next slide.

So in addition to sort of developing the resource guide, our Chairman set forth an idea back in August about eight weeks ago in her speech to the University of Chicago entitled, *Creating a Financial System With Inclusion and Belonging*. And the idea that she outlined is

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

that we'd like to try to find a way to channel all of these hundreds of millions, and tens of billions of dollars in commitments to these institutions.

And so just last week the FDIC issued what I'll call an infographic. It's kind of a strategy map for what an investment fund or a framework that the FDIC is putting together might look like. And so Mike, I'd like to ask you to put up the infographic at this point. Great, thank you.

So the first part of the infographic just talks about the industry and the banks that support communities in need. So there are about 250 MDIs and CDFIs that are FDIC insured. And we know from FDIC research that a much higher percentage of these banks' portfolios, for example mortgage loans and small business loans, are in low- and moderate-income communities. And CDFI banks by definition have 60 percent of their activities in low- and moderate-income

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

communities.

And if you could just scroll down, Mike, to the next section, how investment could help mission-driven banks and the communities they serve. We just talk here about, you know, funding could help raise capital that these institutions need to continue to lend and expand their lending in their communities and help them weather the effects of any economic downturns and recover more quickly.

It can help them attract technical expertise to grow their operations and expand their services. And to acquire, deploy, and maintain more sophisticated technology solutions, including both internal and customer-facing. And finally, to build capacity and scale to achieve cost efficiencies. Many of these are smaller institutions, and so growing their operations can help reduce their costs and serve more customers.

And if you could scroll down to the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

next section, this starts the roadmap that describes the mission-driven fund that the FDIC is putting together.

So the mission-driven fund is designed to provide support where it's most needed. So we are establishing this framework to support these banks. I wanted to make the point that the FDIC will not be a fund investor; we are a facilitator.

The investors will be large companies, and we've talked to a number of them in putting together this framework who are interested in investing in a fund that would, in turn, channel this money to MDIs and CDFIs, mission-driven banks.

They could include larger institutions, financial institutions, as well as philanthropic organizations. But we have received good interest from investors.

The way the fund would work is that MDIs and CDFI banks would make pitches before an investment committee that would serve the fund.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

And the investment committee might meet quarterly to receive these proposals from MDIs and CDFIs for how they would use any funding that's provided.

The way the fund would be managed would be an independent fund manager, and the investment committee also would be independent. Many of these institutions are not interested in having their regulator making these decisions.

And from our conversations with mission-driven banks as we've been developing this proposal, we've heard a need for direct equity, structured transactions, lending, and loss-share agreements.

We presented this yesterday at the MDI Subcommittee and really heard positive feedback that flexibility is really important, that many institutions have different types of needs, so they're looking for flexibility in the types of funding that this would provide. And to just reiterate, FDIC will not be playing a role in

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

fund management or individual investment decisions.

Mike, if you could just scroll down to the bottom of the roadmap, thank you. So we've heard from some of the investors, potential investors, that they are not looking for a market rate of return. They want to do good, and they are looking for a minimal rate of return, or at least preserving their principal.

And so these funding proposals would help MDIs and CDFIs better serve their communities through expanding their activities including mortgages, small businesses, community development, affordable housing, and other ways that they serve their communities.

And then the final feature I wanted to mention about the fund is that we want to make sure it's transparent and accountable. And so the fund manager would provide annual reports to investors and the FDIC on the operations of the fund, on where they are making the investments,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

and how those investments have made an impact in the communities that the mission-driven banks serve.

And then finally, the FDIC would play an ongoing role in making sure that the fund is continuing to support the reason that it has been established, which is really to maintain its mission-driven focus.

And the end of the graphic just shows -- Mike, if you could scroll down -- the multiplier effect of equity capital. And then that's something that we heard from our potential investors that's very important. They want to have a multiplier effect for the contributions they make to the fund.

And one of the things that we found is that many of these companies' treasury departments weren't aware of sort of the effects of deposits versus equity capital in getting more funds into the community.

So that is a quick overview of this

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

investment fund. I did hear Ken Kelly earlier might have some questions, and I'd like to open up the floor now for questions from the Committee.

MR. DAVIS: Thanks Betty. Thanks Gilbert. I don't see hands raised, so I will just say if you have a question, please go ahead and throw it out now.

MEMBER KELLY: Hey Betty, this is Kenneth coming in. I'm sorry, I couldn't find the raise my hand issue. Let me say first, I want to commend again on the leadership of Chairwoman McWilliams and you in thinking about this.

There are a lot of philosophies on this and I won't get into all those details, but what does come up as a concern for me is being sure that as that fund goes out to an RFP, that it does not create exclusion based on experience. And let me give an example.

You know, there are many minority

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

managers who have done extremely well with managing funds. But given the magnitude of dollars you just talked about, if an RFP has a magnitude of whatever, let's just say it's \$2 billion, and you don't have a minority firm that reaches those kinds of thresholds, I would hope we would write something into that RFP to demonstrate inclusion. Because this is another vertical for the potential of exclusion.

So my comment would be that, you know, as you're pursuing down this path, and where it's appropriate, to be sure that there is inclusion in that whole process as an outcome. And so that's a little bit of the feedback.

And I'll be happy to work with you. I also believe that some of these organizations should have a representative in that process to help stand this up. So just want to give you a little bit of that feedback at this point, but we can talk more offline.

MS. RUDOLPH: That sounds great.

Thank you, Kenneth, for bringing that up. And there was some conversation yesterday as well about the investment committee and some questions around that, and really making sure that the investment committee understands the MDI and CDFI bank sector. It's very different from mainstream banking in many ways, so we are going to absolutely have that happen.

So thank you for those comments. And I should mention, I guess, in terms of where we are in the process that we did go out to get some legal help to help start drafting the fund documents and helping us with that RFP.

But we are encouraging, you know, MWOBs and minority and women-owned business and minority and women-owned law firms were invited to participate in that. So we are very much focused on ensuring participation and diversity of participation.

MEMBER KELLY: Thanks, Betty.

MS. RUDOLPH: And Ken, one other thing

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

we mentioned yesterday. You know, a couple of the bankers on the MDI Subcommittee said, you know, are you still open for feedback and sort of some steering, and we definitely are. And so I'm available, our Chairman's Chief of Staff, Brandon Milhorn, is also available, and I know you have my number because we spoke earlier this week. Thank you.

MEMBER KELLY: Certainly. That sounds good. We'll plan to talk more offline, but thank you. Thanks for listening.

MS. RUDOLPH: Chad, are there any other comments or questions?

MR. DAVIS: I don't see anybody in line, so I'll pause for just a few more seconds and see if there's another question before we move on though. Okay.

MS. RUDOLPH: Thank you.

MR. DAVIS: Betty, Gilbert, thank you as well. I'm going to adjust the agenda a bit because we have to be on schedule for the SBA

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

presenters when they arrive. So Brandon has agreed to fill in when we have a gap perhaps a little bit later.

So we are going to go to the 3:50 segment of the agenda, which is the proposed changes to our supervisory appeals process. For that panel, Samuel Lutz and James Watts are going to discuss the proposed changes. Thank you.

MR. WATTS: Okay. Hi everyone, good afternoon. I'm James Watts and I'm happy to be here today with Sam Lutz. We're both counsel in the Legal Division's Assessment Unit, and we're here today to talk to you a little bit about the FDIC Supervisory Appeals Process.

The FDIC recently proposed some changes that are intended to improve this process, and we wanted to make you aware of those. But first, because some of you may not be familiar with the current process, we'll start with a quick overview of that before covering the proposed changes. Can we get the next slide

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

please? Thank you.

So the FDIC is required by statute to have an internal supervisory appeals process to allow banks to obtain review of material supervisory determinations that are made by the FDIC.

Many different types of determinations can be appealed using this process including exam ratings, cited violations of laws and regulations, loan classifications, and plenty of others. The process is generally informal and it's intended to ensure that appeals are heard and decided in a timely manner. Can we get the next slide please?

The current supervisory appeals process provides for review of a material supervisory determination at three different levels that are summarized here.

First, the FDIC encourages banks to attempt to resolve disagreements with the exam team and the appropriate regional office. It is

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

not required, but experience has shown that in many cases disagreements can be resolved in ways that are beneficial for banks. We generally see that as the best possible outcome and certainly encourage banks to give it a try.

Sometimes though there's a difference of opinion that can't be worked out at the regional office. And in that case, a bank may file a request for review with the appropriate division director, typically RMS or DCP. The Division Director reviews the matter and issues a written decision to the bank.

Now if the bank's not satisfied with the Division Director's decision, it may submit an appeal to the FDIC's Supervision Appeals Review Committee or SARC. The SARC is a board-level committee that hears and decides supervisory appeals.

The SARC reviews the appeal and, if requested, generally meets with the bank and FDIC staff to hear their positions and ask questions.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

The SARC issues a written decision to the bank. Those decisions are generally published, but are redacted to ensure that sensitive information isn't disclosed. Can we get the next slide please?

So recently the FDIC decided to explore some potential improvements to the supervisory appeals process. In 2019, the Office of the Ombudsman hosted in-person listening sessions in each FDIC region around the country as well as a webinar.

A total of about 220 bankers and other interested parties participated in these sessions. They were asked to provide their views on the current process and recommendations for how it could be improved.

In August 2020, the FDIC published for public comment a proposal to make a number of changes to the appeal process. The comment period closed October 20th. About 15 comments were received, and staff is currently in the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

process of reviewing those.

We are going to review the key changes in the proposal at a high level here. But if you're interested in learning more, I'd encourage you to follow the link in the presentation. That takes you to the notice, and the notice describes the proposed changes in much greater detail.

To summarize though, the proposal was focused on two particular aspects of the process. First, it would create an independent, stand-alone office to review appeals. This office, tentatively named the Office of Supervisory Appeals, would generally replace the SARC.

Second, the proposal would modify the procedures and timeframes that apply to a subset of appeals where the FDIC is also considering a formal enforcement action. Now I'd like to turn it over to Sam to give you a little bit more detail on the proposed office.

MR. LUTZ: Hello everyone. So we thought it might be useful to start by giving you

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

side-by-side comparison of the SARC and the proposed Office of Supervisory Appeals.

So on the left you'll see the description of the SARC. The SARC is a board-level committee that was established by the FDIC's Board of Directors. It's comprised of three voting members. The SARC chairperson, who is one of the FDIC's three inside directors, and then two additional voting members who are either the deputy or the special assistant for the other two inside directors. And then finally, the FDIC's general counsel also serves on the committee as a non-voting member.

So under the proposal on the right here, the SARC would be replaced by a new, tentatively named Office of Supervisory Appeals. This would be an independent office inside the FDIC that does not report to any of the divisions that issue material supervisory determinations.

And the current vision is that the office would be staffed by reviewing officials

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

who have either bank supervisory or examination experience. For example, retired bank examiners might be a group of people that could serve as review officials. And the FDIC is anticipating recruiting externally for those positions.

The review officials would serve term appointments, possibly staggered. And depending on the work load, they may serve either on a part-time or intermittent basis. Next slide.

So the proposal would not change the initial steps in the supervisory appeals process which James described earlier. So consistent with the process today, banks would still be encouraged to work with the examination team and with the regional office to resolve disagreements. And if the matter couldn't be resolved at the regional level, then a request for review could be submitted to the appropriate division director.

However, if the appeal was going to go beyond the division director, appeals of the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

director's decision would be considered by the new office. The office -- or the appeals would be considered by a three-member panel from the office. And the division director and the FDIC Ombudsman would be invited to submit their views on the appeal to the panel for its consideration as well.

And in addition consistent with current practice used by the SARC, if banks requested, they would be permitted to give an oral presentation to the panel for its consideration when it considered the appeal. Next slide.

So the FDIC is also proposing some procedural changes that are intended to enhance the supervisory appeals process in a subset of cases where the FDIC is also contemplating a formal enforcement action.

And I should say right at the outset, that please keep in mind that these aspects of the proposal are only applicable where an

enforcement action is being contemplated, so most banks are not in that position. So this aspect of the proposal is really directed to banks that do find themselves in that position. And we believe that the proposed changes will provide a clearer and more workable process for those banks.

So the relevant statute that James mentioned earlier provides that the requirement to establish an appeals process does not affect the authority of the FDIC to take an enforcement action against a bank. And currently, FDIC determinations underlying a formal enforcement action are generally not appealable through the supervisory appeal process, either to the division director or to the SARC.

And the reason for that is that recommendations to pursue a formal enforcement action go through a separate administrative enforcement process which provides an alternative avenue, a different avenue for institutions to

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

contest the FDIC's determinations.

However, under the current guidelines, if the FDIC does not pursue an enforcement action within a certain timeframe, generally right now it's 120 days after the FDIC notifies the bank of a recommended enforcement action, then the bank would be permitted or currently is permitted to challenge the FDIC's determination both in the administrative enforcement action and also through the supervisory appeals process.

So staff identified some opportunities to improve this aspect of the appeals process. And one notable change that we wanted to highlight for you is that the proposed process does not include a fixed time limit if the bank and the FDIC are negotiating a consent order.

So in the current, you know, in the current process there's the 120-day limit, and so that can be -- that can pose a challenge during

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

the negotiation process. Under the proposal, there would not be that fixed time limit.

However, if the bank notifies the FDIC that it doesn't believe further negotiations would be productive, then the FDIC would have only 90 days to issue either a notice of charges or an order of investigation. And if that didn't happen, the bank could then appeal the relevant determination through the supervisory appeals process similar to what happens today.

And we believe that this change will better ensure that the timeframes in the supervisory appeals process are not an impediment to a potential settlement.

So that completes our summary of the proposed changes. Hopefully, that has given you a better idea of how the appeals process functions and how we're working to improve it. And with that, we would be happy to answer any questions that you may have. Thank you.

MR. DAVIS: Great, thank you both.

Steve, I see your hand is raised. Please go ahead with your question.

MEMBER HAYES: Can you hear me?

MR. DAVIS: Yes.

MEMBER HAYES: I'm just curious, involved in this Office of Supervisory Appeals Committee, is there any consideration of adding a banker on that group? A retired banker to help that independence, or -- I'm just throwing that out and see if there's any consideration of adding a banker to that committee.

MR. WATTS: I am going to unmute myself here. Yes, I'm happy to answer that one. That's a good question. It is an issue I can tell you having reviewed a number of the comment letters. We received some really thoughtful comments along those lines, and I think it's something we're going to be taking a look at as we're finalizing any changes to the process.

But it is something that a number of commenters mentioned, and I should say we heard

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

suggestions along those lines, not only retired bankers but maybe attorneys and others. We heard those types of suggestions during the listening sessions that I mentioned and webinars.

MEMBER HAYES: Okay, thank you.

CHAIRMAN McWILLIAMS: Steve, we would have to find a banker that's truly retired.

(Laughter.)

MEMBER HAYES: That's a good comment. That's very true. Thank you.

MR. DAVIS: Jim, I saw your video pop on for a moment. Do you have a question?

MEMBER EDWARDS: Yeah, I apologize. Again, I'm coming to you from my phone here. So I was just going to echo what the previous speaker said. I wanted to make sure that that comment got put out there.

It's not just bankers. I think it could be -- it's really more having the diversity on the membership of the new office ---

(Audio interference.)

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

MR. WATTS: Thanks again for the feedback. That's helpful.

MR. DAVIS: Okay, any other questions? All right, well thank you both for the presentation. We really appreciate that. And we will move to our next panel.

The next panel is going to provide an update on a few different supervisory measures. We have a number of folks from the Division of Risk Management Supervision. With us today is Doreen Eberley, Director; Rae-Ann Miller, Associate Director, Risk Management Policy; John Rieger, Chief Accountant; Shannon Beattie, Deputy Chief Accountant. So I will turn it over to Doreen.

MS. EBERLEY: Thank you, Chad. I'm going to go ahead and just really turn it right over to the team. We're going to talk today about some of the guidance that we've issued and a rulemaking since the last meeting, really focusing on the rules around loan modifications

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

and the accounting rules around loan modifications, and also the interim final rule on Part 363. And then also finally some Call Report instructions -- updates related to all the rulemakings.

So I'm going to turn it over to Shannon and John to get us started. Thank you.

MR. RIEGER: Thanks very much, Doreen. If we could move to the next slide please. There, thank you. There was a joint statement issued on August 3, 2020. It's Financial Institutions letter, it's 74-2020, and it provides direction on prudent risk management and consumer protection principles for financial institutions to work with borrowers as loans near the end of their initial accommodation period.

These principles are consistent with interagency guidelines establishing standards for safety and soundness and are generally applicable to both commercial and retail loan accommodations.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Now these principles in this joint statement are intended to be tailored to the financial institution size, complexity, and loan portfolio risk profile, as well as the industry and business focus of its customers or its members.

Now some of the highlights of the document cover the encouraging of financial institutions to consider prudent accommodation options that can ease cash flow pressures on affected borrowers to improve the customer's capacity to service the debt, and facilitate the institution's ability to collect loans consistent with applicable laws and regulations.

Now these arrangements should help mitigate the long-term impact of the financial challenges on borrowers by helping to avoid delinquencies or other adverse consequences.

It also discusses effective risk management, including providing clear and accurate communications and disclosures to inform

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

borrowers of affordable and sustainable accommodation options prior to the end of the accommodation period.

In accordance with U.S. generally accepted accounting principles and regulatory reporting instructions, management should consider the effects of external events such as the COVID-19 in its allowance estimation processes.

And finally, internal controls need to be considered for the initial and any additional accommodation periods. These considerations include quality assurance, credit risk review, operational risk management, compliance risk management, internal audit functions that are commensurate with the size, complexity, and the risk of the financial institution's activities. Please turn to the next slide. Thank you.

The accounting and regulatory reporting section reminds institutions that they must follow existing accounting and regulatory

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

reporting requirements. This includes maintaining appropriate allowances for all loan modifications.

The joint statement refers institutions to Section 4013 of the CARES Act, the revised interagency statement on loan modifications from April 7, 2020, and regulatory reporting instructions.

For the allowance for credit losses, it reminds the institutions that in accordance with GAAP, when they are calculating the allowance either under CECL or the incurred loss methodology, institutions need to consider all relevant available information including changes in borrowers' financial condition, collateral values, lending practices, and economic conditions as a result of COVID.

Now for the next slide, I'm going to turn it over to Shannon Beattie to cover the next --- actually the next couple slides.

MS. BEATTIE: Thank you, John. So

this next slide provides a good visual both of Section 4013 of the CARES Act and the discussions within the April 7th and August 3rd interagency statements regarding loan modifications related to COVID-19.

This table highlights the main differences between Section 4013 and the Interagency Statements. An institution may elect to account for a modification, including a subsequent modification under Section 4013, if it meets the following eligibility requirements.

First, the modification, including subsequent modifications, was COVID-19 related. Second, the loan was current as of December 31, 2019. And third, the modification, including subsequent modifications, was granted between March 1, 2020 and the earlier of 60 days after the end of the termination of the national emergency or December 31, 2020.

If the above criteria are not met or the institution elects not to account for a loan

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

modification under Section 4013, the institution may refer to the interagency statement which includes considerations for when an institution may presume a COVID-19 modification is not a TDR under Subtopic ASC 310-40, which is the GAAP standard for TDRs from the creditor's perspective.

Now keep in mind that the interagency statement is viewed as an interpretation of GAAP within a COVID-19 environment. And an institution can presume a borrower is not experiencing financial difficulty when modifications, including subsequent modifications, are COVID-19 related, the loan was current at the time of the modification, and the relief granted as a result of the modification or modifications was short-term.

When there is a subsequent modification, the evaluation of short-term would be viewed cumulatively considering prior COVID-19 related modifications.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

For all other subsequent modifications, institutions should follow applicable regulatory reporting instructions, which would be Call Report instructions, and its own accounting policies to determine whether such modifications would be a TDR under ASC Subtopic 310-40.

So let's go to the next slide to talk a little bit more about past due and non-accrual reporting. So this slide describes the past due reporting and non-accrual status assessment for COVID-19-related loan modifications.

Regarding past due reporting, the April 7th and August 3rd interagency statements discuss that institutions are not expected to designate loans with modifications granted due to COVID-19 as past due simply because an accommodation is made.

The interagency statements remind institutions that a loan's payment date is governed by the due date determined in the loan

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

agreement, meaning that a past due status reported in regulatory reports should be determined in accordance with the contractual terms of the loan or as revised as part of a modification.

Therefore, for past-due reporting in regulatory reports, which would be Call Reports, institutions need to evaluate whether the contractual terms of the loan have been revised as part of the accommodation provided.

The institution determines whether the payment terms or the timing of the payment terms have been revised and agreed to with the individual borrower, provided across the board to all affected customers as part of an accommodation program, or have remained the same.

Past due status would then be determined based on the revised terms or by the existing terms if the terms have remained the same. For some modifications, the existing past due status of that loan may be frozen during the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

accommodation period.

Upon exiting a deferral period, the payment past due status and delinquency of a loan should be determined in accordance with the revised contractual terms of that loan. Payments that were previously missed or would have been due during the deferment period, may be restructured and not contractually due until a later date. And so that will depend on the specific repayment terms in the modified contract.

Moving on to non-accrual status. Regarding accrual status of loans with loan modifications, an institution should continue to refer to the applicable regulatory reporting instructions as well as its own internal accounting policies to determine whether to report loans affected -- loans to affected borrowers with accommodations should be reported as non-accrual.

There's judgment required to

determine whether the loan should be placed on non-accrual. And typically, this is done when full payment of principal and interest is not expected. And this may occur during or after a deferral or accommodation period.

I'll turn it back over to John for the next slide.

MR. RIEGER: Thanks Shannon. One recent event was that on October 20th at the FDIC Board meeting, an interim final rule was voted on and approved which provides certain relief under Section 363 on Audits, Financial Reporting, Internal Controls and the makeup of Boards.

This FDIC IFR allows IDIs that have experienced growth to determine whether they are subject to the requirements of Part 363 of the FDI's regulations for fiscal years ending in 2021 based on their consolidated total assets as of December 31, 2019.

Such IDIs whose asset growth may be temporary but significant, and would otherwise be

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

required to develop processes and systems to comply with an annual independent audit and reporting requirement of Part 363 on a potentially short-term basis.

The interim final rule was effective immediately and comments will be accepted for 30 days after publication in the Federal Register which was just this last Friday, October 23, 2020.

Now under Section 363, an IDI becomes subject to generally an annual independent audit and reporting requirement for any fiscal year in which its consolidated total assets as of the beginning of the fiscal year are \$500 million or more.

IDIs with consolidated total assets of \$1 billion or more as of the beginning of any fiscal year must provide management's assessment of an independent public accountant's report on the effectiveness of internal control over financial reporting.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Part 363 also includes requirements that each IDI with consolidated total assets of \$500 million or more but less than \$1 billion at the beginning of its fiscal year must establish an independent audit committee of its board of directors, the members of which must be outside directors, the majority of whom must be independent of management of the IDI.

Each IDI with consolidated total assets of \$1 billion or more must establish an independent audit committee of its board of directors, the members of which must be outside directors who are independent of management of the IDI.

And then audit committees of IDIs with consolidated total assets of \$3 billion or more as of the beginning of their fiscal year, are required to include members with banking or related financial management expertise and have access to their own outside counsel and not include any large customers of the institution.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

So, this IFR allows IDIs to determine the applicability of Part 363 of the FDI's regulations annual independent audits and the reporting requirements for fiscal years ending in 2021 based on the lesser of their (a) consolidated total assets as of December 31, 2019, or (b) their consolidated total assets of the beginning of their fiscal year ending in 2021. We inserted the or in case the total assets ended up going down between December 31, 2019 and the beginning of their fiscal year.

Notwithstanding any temporary relief provided by this IFR, an IDI would continue to be subject to any otherwise applicable statutory and regulatory audit or reporting requirements.

The IFR also reserves the authority to require an IDI to comply with one or more requirements of Part 363 if the FDIC determines that asset growth was related to a merger or acquisition.

So now I'll turn it back over to

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Shannon for the next slide.

MS. BEATTIE: Thank you. Wrapping up with a discussion on Call Reports. The Call Reports for March and June 2020 included revisions associated with several capital-related and other interim final rules and a final rule issued by one or all of the agencies in response to the impact on financial markets and the strain on the U.S. economy as a result of COVID-19.

For information on these interim final rules and capital-related rules, those would be located in FIL-38-2020 from April, and FIL-60-2020 from June.

So these revisions also resulted from certain provisions of the 2020 Coronavirus Aid, Relief, and Economic Securities Act or CARES Act. During the third quarter, the agencies finalized several of the capital-related IFRs, or interim final rules, with no change or only limited changes.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Institutions should refer to the separate stand-alone September 2020 COVID-19-related supplemental instructions addressing these revisions, which updates the June version that was in the supplemental instructions as appropriate.

These instructions have been published to each of the FFIEC web pages for the various reporting forms. So that would be for the short form, the FFIEC 050, 051, and the FFIEC forms 041 and 031.

There are no new changes to Call Report data items in these Call Report forms. So the FFIEC 031, 041, and the short form 051 this quarter.

There are new topics added to the supplemental instructions for the September 2020 instructions, and those address reference rate reform with regard to changes to move away from using LIBOR, and uncollectible accrued interest receivables under ASC topic 326, which is

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

relevant to institutions that have adopted CECL.

The topic on reporting high volatility commercial real estate exposures has been removed from the supplemental instructions because this has been included in the permanent Call Report instruction book.

In addition to these supplemental instructions, there is an appendix provided with information on certain sections of the CARES Act that affect accounting and regulatory reporting. This appendix was initially added to the supplemental instructions in March and has been updated for this quarter.

And so you see a link to the supplemental instructions on this slide. That would be FIL-97-2020 which includes all the September supplemental Call Report instructions as well as the COVID-19-related supplemental Call Report instructions.

And that concludes my remarks on the Call Report. I'll turn it back to Doreen.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

MS. EBERLEY: All right. So we are happy to entertain any questions that you may have on this topic or other supervision topics.

MR. DAVIS: Louise, you came up first in the queue, so please go ahead.

MEMBER WALKER: Thank you, Chad. Just a quick question. Thank you for your work on Part 363, that was great. Having gone through that, that is a lot of work for institutions.

I was just curious if any consideration had been given to making adjustments to the CRA thresholds due to the unusual growth in assets?

MS. EBERLEY: I would say that, and maybe I'll pause a minute and see if Travis wants to respond to this question. Okay. So we are taking a look at other thresholds and things that might have been impacted.

I don't know that we can say that we have a game plan for anything yet, but we are taking a look at others and we did comment to

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

that fact in our interim final rule issuance through a financial institution letter that we were considering other areas.

MEMBER WALKER: Thank you.

MR. DAVIS: Okay. Steve, you're up next.

MEMBER HAYES: Okay, thanks Chad. Can you go to slide -- I appreciate your comments on this and the work you're doing. I just want a clarification on slide 6 under the Threshold Adjustments Due to Unusual Asset Growth, under the last bullet point.

Can you expand on the evaluation process? And maybe you did. Maybe you've done that, John. I believe you took this slide. Clarification on your evaluation process?

MS. EBERLEY: I think, Rae-Ann, maybe you want to jump in. This relates to what we were really just talking about, that we are evaluating regulatory thresholds in light of balance sheet increases so we made one

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

adjustment. We're continuing to review others.

MEMBER HAYES: Okay. Okay, thank you.

MR. DAVIS: Okay, Keith, go ahead and ask your question.

MEMBER EPSTEIN: Thank you, Chad. I hope that you can hear me. So I really appreciate the Section 4013, both of the CARES Act and the non-section 4013 loan modification review. That's extremely helpful and the directives that came out early on really allowed us to move forward with some confidence and help our borrowers with some very immediate relief, so I appreciate that so much.

I just wanted to suggest a possible future topic for consideration, and that is I anticipate that next year when we look to renew certain commercial loans and extend new commercial credit, we are going to have to exercise some discretion perhaps as never before when we construct a cash flow.

You know, here in North Carolina, the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Governor had a variety of phases of shutdown and then reopen. And there were certain businesses that, you know, per his directive, simply could not operate for as much as 90 days, and so this year, yes, I think we're going to have to make some considerable adjustments.

We have other customers that have really benefitted from, you know, in immediate boosted sales of some items that they never thought would fly off the shelves the way that they have.

So, I just wonder if that's a topic for consideration. I know every situation is going to be unique, and there may be limits to how specific you can be. But, you know, just a recognition that a bank that acts prudently will be given some support and consideration if we have to base cash flow or debt service coverage over a multi-year period beyond what we would normally do or, you know, sort of construct a bit of a pro forma statement in lieu of using 2020

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

figures.

Just a thought, because I think that's a challenge that we're all going to face. Thank you.

MS. EBERLEY: Sure, sure. I'll start and I'll ask Rae-Ann to jump in. We have some language in our examiner guidance and our examiner instructions for examining during a pandemic that came out in June. We covered it at the last meeting.

But we do have some language in that guidance that talks about, acknowledges in fact, that bankers are going to have some trouble likely with financial statements, you know, and having to use kind of a pro forma process for financial statements in some cases because of the continuing uncertainty or disruption, so that is contemplated.

We've asked examiners to be cognizant of that. We recognize that you will likely have some challenges and want to try to work through

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

those. Rae-Ann, you want to add on to that?

MS. MILLER: Sure, Doreen. So I think you and Keith really characterized it well is that each situation really depends on the bank, on the borrower, on the environment, on the recovery scenario.

And, you know, our instructions to examiners are look at the risk assessment process and the credit risk management process. Just because a loan is classified or non-accrual, doesn't mean that that's not in the best -- the modification wasn't in the best interest of the bank and the borrower given the circumstances.

So, you know, I think that's what we're working with. And we're all struggling through this, Keith, and I think it's going to morph. It's going to be different in North Carolina and Vermont, and all these different areas that we have, and on the bank's business focus.

So, you know, we're happy to talk

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

about it next time and we really appreciate your stories in the beginning. We do the same thing with our examiners and have sort of roundtables and talk things through.

We do case studies and training and will continue to do those things as this thing morphs through the next year or however long it lasts.

MR. DAVIS: Do we have any additional questions? Louise, I see your hand up but I don't know if that was from before or if you had another question. Okay. All right, thank you to everyone for that panel. I don't see any additional questions.

MS. EBERLEY: Okay, thank you.

MR. DAVIS: I believe we are still waiting on a couple of our SBA panelists to join. We are a few minutes early. I might ask if Brandon's available to possibly start on the update from FDiTech?

MR. MILHORN: Sure, Chad.

MR. DAVIS: Okay. Great. Brandon, I will throw it over to you.

MR. MILHORN: So this is going to be the whirlwind tour of FDiTech and our initiatives. I know I've talked to the committee in the past about our tech lab. As you know, the FDiTech was established about a year and a half ago by the Chairman to promote innovation, foster innovation in the banking sector.

We've had a number of initiatives since then. Our guidance to tech companies on partnering with third parties. Our financial institutions or alternative data work. And then most recently, we put out a request for information on the establishment of a third-party standard setting organization that would be a public-private partnership between the FDIC, hopefully our partner regulators, as well as industry stakeholders to create standards for vendor due diligence and technology due diligence.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Because we had heard quite clearly from both banks and technology companies that the on-boarding process needed to be streamlined. It was different at each institution. As a consequence, it was very costly for technology companies to participate in that space.

And so our proposal was to create this public-private standard setting organization that allowed industry to work with regulators to create standards for vendor due diligence and for due diligence requirements for technologies, including specific technologies whether it's underwriting, BSA/AML, know your customer. That would be a decision for the SSO to make.

And then vendors could voluntarily submit themselves and their technologies to auditing organizations, certifying organizations that had been approved by the SSO. I'm trying to think of them as maybe FDA labs that would approve and grant Good Housekeeping Seals of Approval to vendors and their technologies.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

And based on those Good Housekeeping Seals of Approval, financial institutions, in particular community banks who may not have the expertise to vet the technology directly or may have had to have relied on a third party to do it on their behalf, could rely on the certifications to bring on the vendors and bring on the technology.

Now, this wouldn't change the requirement that the institutions continue to manage the relationship with the vendor and manage the technology, but we do believe it could get rid of some of those barriers to entry. Those, whether it's real or perceived, regulatory barriers to on-boarding or just simply operational uncertainty about whether you should take that step and bring on a new technology at an institution.

So, we're in the process of reviewing comments. We've got over 40 comments on the request for information. We're reviewing that

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

and we hope over the next few months to work with our partner regulators to come up with a proposal in this space. That is our request for information on the standard setting organizations.

Separately, I think many of you have probably seen the Chairman's call to make the Call Report obsolete. Our goal there is to use technology to get more regular access to financial institution information.

And we split this competition off in June, on June 29th. We had about 30 competitors come in. And the challenge that we gave these competitors was this. How can you pull data or access data from across multiple sources, whether it's the core providers that hold 85 percent of our institutions' data or other locations, access that data, and run technology tools against that data that allow the FDIC to gauge institution health and the health of the overall financial sector.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Now, we had specific targeted components in that that's competition-sensitive so we're still working with our vendors on that. But the good news is, our concept papers came in. We had over 30 concept papers. We had chosen 14 concept papers to move forward on. And these vendors now have 180 days from when their contract was signed to produce a demo, and then ultimately a prototype that the FDIC can use to implement this new technology.

Now, we don't think we're going to make the Call Report obsolete in 180 days, but we do think we're going to learn tremendous lessons from this exercise. It's our first hackathon. Our goal is to learn as much as we can.

Hopefully, we'll get some products that will streamline our supervision process. But in the process, I think we'll also learn some lessons about how data is stored across the sector. Whether we can learn how to access and integrate new technologies, not just for

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

supervisory purposes, but also more effectively for our financial institutions.

So, these are the goals of our request for information and our first hackathon on financial reporting. They fit well with the Chairman's overall goals to foster innovation in the sector and improve the FDIC's use of technology to conduct supervision and reduce regulatory burden on institutions we supervise.

So with that, I'm happy to ask any questions. I don't want to keep you all from hearing from the SBA for sure.

MR. DAVIS: Fred, I see your hand. Please go ahead.

MEMBER DeBIASI: Thanks, Chad. Brandon, nice presentation. Not a question as much as I think I would be remiss if I didn't comment on my admiration for your Cincinnati Reds pennant in the background. That made my day and hopefully you're in line for a nice promotion at FDIC because of that. Thank you.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

MR. MILHORN: (Laughter) Well, I'll have to take that up with the Chairman. But, yes, I've been a Reds fan for quite some time, much to the chagrin of Director Gruenberg.

(Laughter)

CHAIRMAN McWILLIAMS: I will add at least I don't ding his reviews for having been a Cincinnati Reds fan.

MEMBER DeBIASI: Well, you have a kindred spirit in me, Brandon. I'm behind you all the way.

MR. MILHORN: Well, they didn't crush my soul too much this year.

MR. DAVIS: Keith.

MEMBER EPSTEIN: Thank you, Chad. Brandon, I just wanted to tell you that I think all of these initiatives are fantastic and specifically the certification that will assist us in conducting due diligence.

Traditionally, our due diligence has been to view a mature balance sheet and contact

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

references that have multi years of relationship with a would-be vendor. And these fintech companies, you know, that's just not possible.

You look at their balance sheet. You look at their financial statements. It's all intangible intellectual property. They're all in their infant stages, and I really feel ill-equipped to size them up and do proper due diligence if you will.

And I had a conversation with Peter Gwaltney who's the North Carolina Bankers Association CEO, and he mentioned to me the same sentiment. So he believes, as I do, that this would be a big benefit to our North Carolina banks as we look to move forward in partnering with the right firms to, you know, advance our technology for the benefit of our customers.

So, I just wanted to let you know I think this is really a positive initiative, particularly for community banks. We just don't have the expertise, and this would give us some

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

real comfort to move forward, I think, with some companies that would provide a significant value. So thank you.

MR. MILHORN: Thanks, Keith. And, you know, from my perspective, one of the real benefits of the public-private partnership component of this is we can get real-time feedback from both regulators and industry stakeholders sitting at the table to help craft these - to craft these standards.

And I think it will allow us to be a little bit more nimble in situations just like that, Keith, where you're looking at a new technology or looking at a potential new vendor and how to consider their stability.

Because ultimately, we want vendors who are stable and can continue to support our financial institutions, but how we operate in this environment is challenging right now. So, we hope that this will improve the process.

MR. DAVIS: Okay. Any other questions

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

for Brandon? Okay. Well, Brandon, thank you and thank you for jumping in in the short window there. I appreciate and it's good to see your friend.

MR. MILHORN: Rosie. Fred will appreciate that is Rosie. Thanks all.

MR. DAVIS: Okay. Next, our next panel is from the U.S. Small Business Administration. I appreciate very much them joining us today. We have William Briggs, Deputy Associate Administrator, Office of Capital Access; Dianna Seaborn, Director, Office of Financial Assistance; and Susan Streich, Director, Office of Credit Management. Bill, I'll turn things over to you and thank you for joining us.

(Audio interference.)

MR. DAVIS: Bill, Bill, I think -- sorry to cut in, but I think we're having some audio issues. Your voice sounds very distorted. Or does it appear to just be for me?

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

MR. BRIGGS: Is that better?

MR. DAVIS: No, unfortunately it sounds like you're in slow motion almost. Would one of your colleagues be able to step in? We could see if that audio is working?

(Audio interference.)

MS. SEABORN: Okay, now I'm unmuted. Is my voice distorted as well?

MR. DAVIS: No, we can hear you just fine.

MS. SEABORN: Briggs, maybe you just want to call in on your phone. No offense.

MR. DAVIS: And our folks are happy to work with you, Bill, to get your audio fixed. Susan or Dianna, do you want to go ahead and talk a little bit while we work on that?

MS. SEABORN: Oh, we're probably less informed about what the topic is that you're interested in hearing about than Briggs. We usually let him open the door and then we step through as the SMEs. But, I'm assuming that the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

conversation is about forgiveness. Is it in general PPP or is it where we are with forgiveness?

MR. DAVIS: Yes, we've had a lot of questions lately around forgiveness and related issues, so that was the original reason that we reached out.

MS. SEABORN: Right.

MR. DAVIS: Happy to check in again to see if Bill's audio is better, or if you prefer we could maybe jump into questions and take it from that route.

MS. SEABORN: Sure, whatever works for you. Obviously, one of the hot topics that we have, it's our trade association big week. We're having our national conference this week with the National Association of Government Guaranteed Lenders, so we've been listening a lot to those lenders this week and some of the issues that they're having too.

We recently put out information on our

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

change of ownership rules for people who own PPP businesses and are trying to sell those businesses subsequent to receiving PPP funds, and that was overdue because obviously some of the businesses started already to change hands.

Bill, is that you? He really only sounds like this in the morning when he's still grumpy.

(Laughter)

MR. BRIGGS: Can you hear me?

MS. SEABORN: Briggs, I don't know what your problem is. Did you try just dialing in by phone? One for yes, Briggs, two for no.

MR. DAVIS: Well, I guess while we try to connect that, maybe I'll ask the Committee if there's anybody who might want to open with a question then. I know that on a lot of the calls that the Chairman's been doing, this has been a frequent topic, and yesterday we had our MDI subcommittee meeting and again information about how this might proceed was a big question.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

So, I see Alan with his hand up. Alan, maybe start us off with a question and we'll see if we can get the audio resolved.

MEMBER SHETTLESWORTH: Cool, sounds good. I was kind of enjoying that. A couple questions, but first a statement though. Realizing what the SBA has done in such a short amount of time with the resources it was given is just incredible, so I mean, I just want to say I'm really impressed.

I know a lot of the bankers here kind of helped, of course, administer that program, but the heavy lifting you guys accomplished in that short of period of time is just unbelievably impressive.

One kind of theme for me, one question we keep getting asked from borrowers is when can we expect some type of response from the SBA? We have so far submitted 50 forgiveness applications. We've received payment on four of those applications, and there doesn't appear to

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

be rhyme or reason. I know the SBA according to the law has 90 days to respond. But I didn't know if there's any type of rhyme or reason or pecking order based on loan size that the SBA is looking at.

And the second one also along the communication theme, we just discovered yesterday that there is a notice from the SBA that I think is intended to get to the borrower after the PPP loan is fully forgiven and the Notice of Paycheck Protection Program Forgiveness Payment.

We found that through the online portal, but the only people that have access to that specific piece of the portal are the administrators for the bank. And so, just a question on that one. Is it possible to have that pushed out separately to our lenders who are actually communicating with our borrowers on this? So, those are my comments and questions.

MS. SEABORN: Right. So Briggs, are you in mode now or no?

MR. BRIGGS: I've called in so can you folks hear me?

MS. SEABORN: Yes, we can.

MR. BRIGGS: Okay, great. So you won't see my face but I am talking. And I apologize for the technical difficulties as well.

The first question is, we have started remitting payments. Just as a reminder, the borrowers apply to the lenders for forgiveness, and then the lenders send those forgiveness decisions to SBA.

We, if we have 5.2 million PPP loans, we have not received a vast majority of forgiveness decisions. We have received some, and we have started remitting payment on those as well.

We are also in the process of, you know, measuring twice and cutting once. Because forgiveness and the remittance payments are really the key point at which the taxpayer funds are exposed. So we're also in the air of

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

oversight. We're dealing with our IG, GAO and Hill committees to make sure and look at our implementation of the PPP.

And we're using some of the lessons learned to make sure that during forgiveness it's ultimately a lot more smoother and effective. We have been remitting payments, and we expect that to pick up in the very near future regarding that.

Regarding the second question regarding the forgiveness platform, I believe that in terms of the access to certain documents and all that on the administrator levels, we can certainly take a step back and look and see what we can do to fix that for you.

MS. SEABORN: Right. And if I can add to that, you know, one of the methodical intentions of the rollout of the forgiveness was to make sure that all of our lenders had signed up in the portal, and I believe we are darn close to 100 percent but not quite there.

And then to test those ACHs, because

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

what we found when we first started looking at the first few was that we had incorrect ACH information. And so we wanted -- we went out and asked everybody to come back in and check their contacts and their information provided so that we could do it.

So then what we did instead of just proceeding against all of them is to say, okay, let us try and get some to each so that we can see that it works, that it's effective, that it gets there, the ACH goes out, that they get it timely, and everything is working.

I think from that now, we're in a mode to expand and I think it's very good. And to Briggs' point we'll take this away is can we give more folks access, or is it one point of access or a limited number for the platform for each lender.

And I think to some degree it has to be controlled, but I think we might be able to take a look at that issue because I think that,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

you know, for the lenders that have done many, many loans, that you're going to have to have more hands on this than just one or two. So point well-taken.

MR. DAVIS: Great, thanks Alan. Bill, I want to give you the opportunity since you got cut short there, if you want to go back and go over any of the comments that you wanted to open with.

MR. BRIGGS: Yes. I just really wanted to thank the Chairman and all the FDIC staff who have been a part of this. They have been a crucial part of, you know, the effort over the last seven months.

We released today our FY-20 data, and when you combine PPP, EIDL, and our regular loan program, we've done nearly nine million loans and over \$750 billion worth of financial assistance for small businesses across the country. A record year in the history of this agency.

And again, it was combined effort with

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

our lending partners as well as our federal regulatory partners, and we greatly appreciate everything the FDIC has done as well as the lenders obviously participating in both PPP and our other programs.

I just want to also acknowledge my colleagues, Dianna Seaborn who is the Director of Office of Financial Assistance. In the Office of Capital Access, she handles all of our policy. And Susan Streich who directs our lender oversight program in the Office of Credit Risk Management.

They have extensive background and experience in lending and are highly valued by the lending community, the SBA lending community, but also here at SBA headquarters for their expertise. And especially given Susan's role as lender oversight, I wanted to make sure that everyone on the call has the benefit of knowing her, and also if there is an appropriate discussion that she could add her perspective and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

expertise.

So with that, I would be happy to get back to questions and answer where we are in the process or anything related to forgiveness as we want to make sure that we are sharing accurate information with our colleagues.

MR. DAVIS: Excellent, thank you. And Alan, I saw you pop back up again. Do you have another question?

MEMBER SHETTLESWORTH: I'm sorry, I'm quick to the trigger and I don't mean to hog this. But we just recently came across this issue dealing with the potential tax consequences. Some of our CPAs in town are now recommending to their borrowers that they do not apply for forgiveness until 2021. So there appears to be some type of attempted gamesmanship when it comes to the potential tax consequences.

Do you have any feedback for us on that issue one way or the other because it is not clear. And that issue is probably more on the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

IRS, but do you have any feedback for us on that?

MR. BRIGGS: Yes, I would like to take an initial answer that, and then also make sure that Dianna weighs in.

First, as a reminder with both PPP and EIDL, that on PPP there's a deferral period of 10 months after the cover period, after the eight or 24-week cover period in which the borrower does not have to pay. Now, if the borrower applies for forgiveness and then has a remaining balance, that deferral period no longer applies.

But generally speaking, most borrowers if they do nothing, do not apply for forgiveness, they do not have to make a payment on the PPP loan today.

The same thing for EIDL loans. EIDL loans have a 12-month deferment. And so again, we're expecting with both programs that if a borrower does nothing, they do not have to start making a repayment until March of next year.

However, in terms of the tax

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

consequences, we're not able to offer that individualized advice. That is obviously best left with the individual borrower and/or lender. But Dianna, I don't know if you have anything to add to that.

MS. SEABORN: Yes, just a couple of comments. Obviously, the CARES Act authorized and requires that the, at a federal tax level, the PPP forgiveness will not be considered taxable income. That is not true, necessarily, at every state or local level.

I believe about 26 of the states follow federal guidance on that, but as you know, that may not be the case for many. And with states starving for income, I don't know what their position will be in the end.

So, we do know that while the PPP forgiveness funds are exempt from federal taxation, we cannot tell from state to state, and are basically leaving that to the borrowers and their accountants to understand what the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

taxability of that is with regard to their local area. Because some states do kind of lock-step with the federal agencies on -- the federal rules on that. Some of them don't.

We are having discussions with the IRS about the other parts of the program where the CARES Act did not specifically indicate tax exemption. So the payments on the SBA loan portfolio, the microloan portfolio 7A and 504, they obviously were silent on that. So, at this point they're considered to be taxable things.

We are working through 1098 issues and 1099 issues where the 1098 issues, I guess, are the interest paid, and the 1099 would be the payments that were made on their behalf and how they'll need to deal with that.

So, we are already in the process of working through to provide guidance to the SBA and Treasury's position on those issues with regard to taxation. I'm sure that the IRS, in conversations with them, will be bringing to the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

table some additional clarity as we get closer to tax season.

But to Briggs' point, they don't have to file for forgiveness this year if they choose not to. It's perfectly within their rights to do that. So, we don't consider it to be a problem. Certainly, we'd like to get it behind us and most lenders would.

You know, while the borrowers have reasons to manage their tax liability in any given year, and are well-advised to do so by their counsel, lenders don't want to get stuck with these loans longer than they have to. Everybody wants to get back to a normal portfolio management kind of thing.

So, the forgiveness process within the parameters in the Act in terms of the timing is driven by the borrower and not necessarily by the lender or SBA in terms of when that happens.

MR. DAVIS: Okay. Fred, I see your hand. Do you have a question? Louise, I also

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

see your hand.

(Audio interference.)

MEMBER WALKER: Yes? Fred, are you --

MR. DAVIS: I think we might have some audio issues there. Louise, maybe we, we can come back to Fred. You want to go with your question, Louise?

MEMBER WALKER: Sure. First of all, I just want to second Alan's comments, about what SBA has achieved. So thank you, on behalf of our communities, because it is -- it's been wonderful.

Probably one of the biggest challenges we have is communicating with our customers. And we recently just had two loans that were pulled for review.

And the question is: how long after we submit the requested items does SBA have to get back to our borrower? Because the borrowers are nervous about that.

And just as a second part, both of

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

them were below the \$2 million we were expecting, over \$2 million. But I guess you can do them below \$2 million. So anyway that's my question, so thank you.

MR. BRIGGS: Yes, I'll take a go at this, and then obviously if Dianna wants to add anything as well. First, it's helpful to think of both the loan review process and the forgiveness process as separate but related processes.

And by that I mean any loan could be reviewed at any time, for any reason, by SBA, regardless of size. All loans over \$2 million will be reviewed for loan necessity, as has been stated by the Administrator and the Treasury Secretary, for economic need.

And I expect those notices to start going out to lenders to access a questionnaire and albeit the forgiveness platform that the borrower will then complete.

The lender does not have to verify

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

that information on the \$2 million question -- \$2 million loan questionnaire, but they are responsible for getting the information in and sending it back to SBA, but not verifying the information.

Regarding loan reviews, we also are sending out those notices as well to the lenders that certain loans are under review. We don't have a specific time frame, but we are generally trying to handle these in an expeditious manner.

Our goal is not to further harm the borrowers or cause undue burden onto the lenders. We are trying to have an expeditious forgiveness process overall.

Obviously the loan cannot be forgiven until the loan review is completed. However, we are working on that and, we again, are trying to balance that expeditious loan review and forgiveness, as well as making sure that we're doing our part and have the internal controls to prevent and/or protect the taxpayer funds.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Dianna, I don't know if you have anything to add as well?

MS. SEABORN: I just unmuted. I don't have anything to add, Briggs. I think you covered it pretty well.

MEMBER WALKER: Thank you.

MR. DAVIS: Thank you. Patty, please go ahead with your question.

MEMBER MONGOLD: My question has to do with the forgiveness. We've received some of the forgiveness funds back.

On four of the loans that we received those funds back on, they were reduced by EIDL payments, and we were unaware of that happening. We were -- our borrowers were unaware that that was going to happen.

And we were -- we'd like some guidance on that, when -- how often is that going to happen? Why -- where is the instructions to us in advance that -- so we could've made them aware of that?

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

And we were under the impression that those balances would remain on the SBA's balance sheet rather than ours, and that the borrower would be making payments to SBA.

Now we are having to, our borrowers are going to have to start making payments to us beginning next month. So just some comment on that, if you would please?

MR. BRIGGS: Sure. Patty, I firmly recognize your frustration with the EIDL advance. And I just want to clearly explain that the EIDL advance deduction from the forgiveness amount is required by the CARES Act. There is a specific provision in Section 1110 that mandates that we deduct any EIDL advance amount from the total forgiveness amount.

And I think the intent originally -- and, again, you have to think back a little bit to six or seven months ago, when Congress thought this would be a short-term situation, you know, an eight-week forgivable

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

loan program, and obviously it has evolved since then, and I don't think they anticipated some of the situations we are dealing with today.

But right now, for example, if a borrower has a \$10,000 PPP loan and a \$1,000 EIDL advance, we must -- that borrower has gotten \$11,000 of CARES Act, they must deduct the EIDL advance from their forgiveness amount.

And in this example, assuming that the whole PPP loan would be forgiven, that borrower would still have a remaining balance of \$1,000, which would then as you correctly said, they would have to start making payments on it, on upon, you know, upon the lender's determination.

We have raised this issue with Congress just yesterday. They are aware of this situation. But this has clearly been in both the CARES Act and the Guidance, and we have been trying to inform lenders of this as well.

Part of that challenge too is that the borrowers may have told the lenders before the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

PPP loan happened, or they did not, and then the EIDL advance happened after the PPP loan was made and the lender had no clue.

We have very clearly heard the frustrations from the lending community about this. We have also expressed, you know, that this would require a statutory fix at this time.

And so we have made that abundantly clear to both the lender and the lending community, as well as Capitol Hill and the Administration as well, that this is something that is causing some concern, and probably is one of --- a potential unintended consequence -- I'll be very careful with my language -- of the CARES Act not anticipating how the situation would evolve over the last few months. Dianna, I don't know if you have any comments on that as well?

MS. SEABORN: Nope. That's pretty tight, Briggs.

MR. BRIGGS: The one other thing: you

should be able to go into the platform and see if some of your forgiveness decisions do have EIDL advances, which will be deducted.

MEMBER MONGOLD: Okay. Thank you very much for that response. Appreciate it.

MR. BRIGGS: Thank you, Patty.

MR. DAVIS: Fred, do you want to try again?

(Silence)

MR. DAVIS: Okay. Tom, go ahead, please.

MEMBER LEAVITT: Sure. Hey, Bill. Tom Leavitt, Northfield Savings Bank in Vermont. So if a borrower subtracted the EIDL advance amount from their original loan calculation, how do we ensure that the SBA doesn't subtract that amount again during the forgiveness process?

MR. BRIGGS: Right. So this is one of the situations we're facing right now. That we are -- and per Dianna's comment of kind of slowly rolling this out, as lenders are looking

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

at their forgiveness operations and the decisions and also having a chance to look more at individual loans.

And I'm sure as we all recall when these loans were being originated, it was a mad rush. Now there has been some time both to look at the documentation, understand lenders individually, understanding how they're going about their process, and they're seeing these situations that, wait a minute, we've already tried to account for this EIDL advance or something like that.

We are working on these issues with Treasury. They have been brought to our attention. We don't have an immediate solution to this.

Right now, if you feel that that -- right now, just right now what would happen is, if you apply for forgiveness, that EIDL advance will be deducted, and essentially that borrower would've gotten a double haircut.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

And so right now, we are working on the solution. If you're aware that that has happened, I would suggest holding off for a little bit on applying for that forgiveness decision, as SBA and Treasury kind of try to work through our current operational and policy framework, within the legal constraints, to try to solve some of these problems. But we are aware of the situations like that.

MR. DAVIS: Alan, go ahead.

MEMBER SHETTLESWORTH: Last one, I promise. Specifically when it comes to the smaller dollar loans, meaning \$50,000 and under, for the Form 3508S, what documentation does the SBA really want us to send up there?

I mean I'm happy to send everything we get from the customers, but it does seem like maybe we're okay just submitting the completed application and that's it.

The more documents we request of our borrowers, especially on those really small

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

\$1,000 and \$5,000 loans. I mean that is a -- that's just turning out to be a big burden for these folks. So what are you looking for from the SBA for us to send to you?

MR. BRIGGS: So I'm going to start and then I'll let Dianna handle this as well, or address it, because she's very familiar. We all are familiar with this issue, but she explains it very well.

And I want to be very clear. This is another situation where the law ties our hands. In Section 1106, we are not able to grant forgiveness unless we have the documentation proving that the funds were spent in the appropriate manner.

So those documents still have to be submitted. And it's very clear in the new IFR, for 3508S, that those documents, supporting documentation in addition to the application, must be submitted to the lender, and the lender must have those in order for forgiveness to be

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

processed, regardless of which application form you're using.

And that is a statutory change, and so that is still where we are. But Dianna can go into some of the benefits and how lenders are also benefitting from this 3508S. Dianna.

MS. SEABORN: Sure, sure. Thanks, Briggs. We think that Treasury and SBA have gone as far as we can in terms of removing the pain from the process for smaller loans, based on the fact, as Briggs indicated, that the CARES Act requires some level of documentation.

So under -- you know, exercising de minimis authority, the Treasury and the Administrator agreed on this abbreviated form.

So what they don't have to do is walk through the calculations and support those calculations to you in terms of the document. They simply fill in the blank.

They are not subject, they have been exempted from dealing with the issue of did I lay

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

anyone off, did I reduce salary, did I lose employees? That is not a reality for anyone who's going to be able to fill out that Form 3508S and move it forward.

So what we would expect them to send to the lender is their documentation of payroll that shows that they used the proceeds in accordance with the program, 60 percent at a minimum on payroll, 40 percent on those other issues.

And the lender is charged with confirming that they sent the form and it was complete. That the -- that the documentation was received in support of that, and then moving that along with their decision to SBA.

And I say that, in talking to all the thousands of lenders that are in the NAGGL conference, today, and that, you know, we don't expect a high level of inspection, or confirmation.

You don't have to go outside to

external sources to confirm this information in any way. But the challenge I think for a lender, practically speaking, as a former lender, is you can't un-know what you know.

So if something screams at you that there's a problem that your loan was based on this, and this one is wildly different on this forgiveness, then obviously it's difficult to move it forward, in good conscience, and most of our lenders have good conscience and are very conscientious about it.

So the requirement is not to do external review and to check the calculations, because you won't be getting the calculations on that -- with that form.

So we have moved away from as many of the documents as we possibly could. And one of the challenges, as you might appreciate, that that presents for SBA and the Treasury is, you know, if there are no requirements to report, collect, or retain any documents, it's very

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

difficult for us to do our job as civil servants, and audit and review, you know, for control and improper payments -- those loans.

So we've stripped it down I think as far as we can, under the statute, and it does take some of the burden away from the bar, particularly on having to calculate reductions in force and things of that nature and I think that makes it easier for them.

For the lender, what makes it easier is you don't have to look and confirm and do the math behind them. You don't have to check their calculations, because you're not going to see their calculations. You're going to take their good faith certification on those things.

Not quite as easy as what was asked, but in order to take it further than we have that would require additional legislation in consideration of an alternative for smaller loans.

MR. DAVIS: Okay, do we have any other

questions? Great. Well thank you for coming over, really appreciate that. And you know, we may have the opportunity to talk again, but hopefully it will be on the other side of some things.

Thank you again for coming over, and I know this was short notice, so I really appreciate you guys making the time.

MR. BRIGGS: Thank you, Chad, and thank you to the Chairman.

MR. DAVIS: Thank you.

(Audio interference.)

MR. DAVIS: -- financial economists. They're going to talk about deposit trends and the Deposit Insurance Fund. And Jonathan Pogach, Chief of Financial Modeling and Research Section, is going to discuss the FDIC's academic challenge.

MS. HINTON: Thank you, Chad. Can everybody hear me?

MR. DAVIS: Yes, we can. You're

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

coming through. Thank you.

MS. HINTON: Thank you. I appreciate that. Good afternoon to the Advisory Committee. So as Chad mentioned, I'm speaking today on deposits and liquidity due to the unprecedented growth in deposits reported in the first half of 2020.

The question of where these deposits came from, in what form, how stable they are, and what you guys as bankers are doing with them is at top of mind.

As Chad mentioned, I'll begin by looking at some stats for the overall industry as a whole, all FDIC-insured institutions, and then Dan will discuss the impact of all of that deposit growth on the FDIC's reserve ratio.

So if you would move to the first slide. Looking at the first chart here on Slide 2, you'll see that total industry deposits increased by \$1.18 trillion, or 7.5 percent in second quarter 2020, which is slightly less than

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

the \$1.24 trillion that they grew in first quarter 2020.

The \$1.24 trillion growth reported in the first quarter was the largest growth reported in the Call Report data we have available, which goes back to 1984. I should say the electronic Call Report data, which goes back to 1984.

So the natural question is: where are all these deposits coming from? Fair warning, my economist colleagues in DIR helped me out with this section, and any tricky questions I might send to the way of the economists.

I'm a financial analyst. But we do know like several factors that accounted for the growth in deposits, several basic factors that I'm sure you guys are familiar with.

So first, fiscal stimulus included support to businesses and households, totaling over \$1 trillion, with nearly \$525 billion in the PPP Program as you all were just discussing, and nearly \$400 billion in expanded unemployment

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

insurance.

As a result, the data show that monthly personal savings more than doubled between February and June. And again, the data I'll be talking about today is mostly through June. Personal income as well as personal savings increased substantially.

Second, Fed asset purchases and loan facilities resulted in a \$1.3 trillion increase in reserve balances between February and June. And typically deposits increase when the Fed expands reserves.

Third, first quarter saw the largest draw-downs in commercial and industrial credit lines, since 2011. Many corporations that received that money turned around and deposited it. In fact, Morgan Stanley banking strategists estimated that almost half of the increase in deposits in first quarter was from corporate credit line draw-downs alone.

Now this process pretty much reversed

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

itself in second quarter. In second quarter, capital markets started to open up and U.S. corporations issued more dollars in bonds, per month, than any time in 2019.

And then those corporations were able to use that money to pay down their credit lines, while keeping deposits at their banking institution.

Fourth, the last main driver of deposit growth is that business and consumer precautionary cash-holding and their reduced expenditures contributed to higher deposit levels.

I know the mechanics of a lot of items I've just mentioned are worth exploring further, they're very interesting. But for now, I hope I've just given you a general idea of where all of these deposits came from.

So now the second thing you'll notice on the first chart is that non-deposit liabilities increased in the first quarter and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

fell in the second quarter almost proportionally. And again, here we're looking at all FDIC-insured institutions.

We thought it could be the case that banks used non-deposit liabilities during the first quarter to increase liquidity in anticipation of a stressed environment. Or they might have used them to fund the large draw-downs on credit lines that were reported in the first quarter. Either way, as deposits surged in both quarters, non-deposit liabilities were paid back or rolled off in the second quarter and shrunk in about proportion to what they had grown in the first quarter.

The last thing I'd like to note before moving forward relates to the second chart on Slide 2. As I mentioned, total deposit growth was not as strong in the second quarter as in the first quarter.

However, that was not the case for domestic deposits, which grew at an even more

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

rapid clip in the second quarter, while foreign deposits declined. I point this out, because the next few slides will break down the change in deposits into various subcategories.

So next slide please. For instance, the first chart on Slide 3 shows that the maturity and non-maturity deposit breakdowns are for domestic deposits, as that's how those items are reported on the Call Report, as many of you I'm sure are familiar with.

So therefore, because this is domestic deposits, you'll see the largest growth in the most recent column of data there on the first chart in Slide 3.

The main takeaway from this chart is that most of the deposit growth in recent quarters has been from non-maturity deposits, which are typically considered with some debate a stable form of funding, a stable source of funding.

Not pictured here is that the share of

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

non-maturity deposits has risen from a recent low of 85 percent in first quarter 2019, to 89 percent today.

The second chart on Slide 3 shows the breakdown in deposits by those in accounts with a total balance greater than \$250,000, or large accounts, and those in accounts with a total balance less than \$250,000, or small accounts.

The pie that these account types are broken out of is not total deposits or domestic deposits, but assessable deposits, as you all report on Schedule RC-O.

We can see that most of the deposit growth this year has been in large accounts. And while at first glance that may seem surprising or concerning, it may not be given that we believe much of the increase in deposits came from corporations that drew down their credit lines, and those credit lines may well have exceeded \$250,000.

Some folks may wonder how this relates

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

to insured and uninsured deposits. I know at the FDIC that's of concern to us. I'm simplifying this, but recall that even in accounts with balances greater than \$250,000, the first \$250,000 is insured, so not all large account deposit growth is uninsured.

Next slide please. Now for a view particularly relevant to this meeting, the chart on Slide 4 looks at the quarterly growth rate in domestic deposits at community and non-community banks, as defined in the FDIC's 2012 Community Banking Study.

And if anybody has questions about how we define community banks, I'd be happy to answer that later. I'd like to note first that this data is merger-adjusted.

That means two things happened to the data. The first is that if a bank was acquired, we pretend that the deposits of that bank always belonged to the acquirer.

That way when we look at growth

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

between two quarters, the deposits of the bank that was acquired are not present in the first quarter, but are missing in the second quarter, driving the growth rate down.

Second, if the FDIC changed a bank designation between community and non-community bank between quarters, we pretend that we didn't change the designation.

In other words, we keep the panel of banks constant. That way if a community bank grows into a non-community bank over the quarter, those deposits are not present in the community bank bucket in the first quarter, but missing from the second quarter, penalizing community banks.

I'll note that I have the non-merger-adjusted deposit growth figures as well. And while the figures themselves are slightly different, they don't change the story that's shown here.

So as you can see here on Slide 4,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

non-community banks reported tremendous deposit growth in first quarter 2020, whereas community bank deposit growth didn't take off until the second quarter.

And as I've noted a couple of times now, the largest draw-downs in C&I credit lines were in first quarter. And I think many at this meeting would know better than I, but I believe it's likely that the deposit growth generated by those draw-downs was concentrated in large institutions, driving their large first quarter growth relative to community banks.

And then when federal stimulus for consumers kicked in, in the second quarter, retail customers piled any extra funds they had into deposits at more of their local community institutions.

Now moving back to the industry, we know that most of the growth in liabilities has come from deposits this year, not a huge shocker. But I think it would be interesting, from a risk

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

perspective, to look at the change in non-core funding and liquid assets at our institutions.

So next slide please. The first chart on Slide 5 shows the breakdown in total liabilities growth by non-core and all other liabilities. We can see that in neither quarter did banks report a large increase in non-core funds compared to all other liabilities.

Similarly to non-deposit liabilities seen on the first chart of this presentation, we can see that in first quarter banks reported growth and funding from non-core sources.

Then in second quarter, as more deposits rolled in, those non-core funding balances declined almost in proportion.

On the other side of the balance sheet, the chart on the right-hand side of this slide shows that in first quarter, liquid assets made up approximately half of total asset growth, and in second quarter they made up the totality of asset growth.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

It should be noted here, you can't see it, but total loans did grow by 0.3 percent, in the second quarter, but those are grouped in with the blue bar called All Other Assets, and when you group them with All Other Assets they shrunk when combined with those other categories.

Before we move on to the next and final slide, I'd just like to point out that the two charts we're going to see on the next slide, we'll take the red and the gray sections here, representing non-core liabilities and liquid assets and break them down into their subcomponents.

So next slide please. Okay. So we can see that the change in non-core liabilities, in both quarters, was fairly broad-based. That's on the left-hand side.

While on the right-hand side, we can see that the increase in liquid assets was predominantly in cash and balances due from depository institutions.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

So from that, and from statements made by some banks during the second quarter earnings season, it appears that this rapid deposit growth has generally not been being treated as stable or sticky funding by our banks.

Looking towards third quarter 2020, early indications show that deposit growth has normalized, may be a little high, or has normalized.

In other words, while growth may not be as large as it was in the second quarter, early indications do not show a decline in deposits, at least at the industry level.

So I think that's a really good thing, indicating that these deposits are probably --- they're going to be around for a little while longer, and at least not seeing a sharp decline at the moment.

Of course that's all dependent on -- well a lot of things can affect that, like federal stimulus going forward, if there will be

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

any, et cetera.

So that's the high-level overview of trends in deposit growth for the first half of 2020, and what we've seen with institutions, what we've seen institutions doing with these deposits. And on that, I'll be pausing for any questions.

(No audible response.)

MS. HINTON: And if there are no questions, we'll move forward to how this has impacted our reserve ratio at the FDIC.

MR. DAVIS: I don't see any hands. I'll give a couple more seconds though, in case anybody wants to ask a question. Okay. Thank you. Go ahead and hand it off to your colleague.

MR. HOOPLE: Great. Thank you, Chad, Angela, and members of the Advisory Committee. Today I will be discussing the restoration plan, as Angela mentioned, adopted by the FDIC Board in September.

Beginning with why such a plan was

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

necessary, followed by the components in the plan, and the analysis that the plan was based on. The discussion of why a restoration plan was necessary --

(Off the record comments.)

MR. DAVIS: I think maybe your slide might be over your camera.

MR. HOOPLE: Oh. Possibly. Let's see if I stop it and start it again. I am not sure.

MR. DAVIS: Okay. We can go with audio.

MR. HOOPLE: Okay. All right, so going back to the discussion of the restoration plan. It builds on the trends that Angela has already described.

The chart here depicts recent deposit growth experienced by IDIs with respect to insured deposits. During the first half of 2020, insured deposits grew an annualized rate of about 18 percent in the first quarter and 33 percent in the second quarter.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Such growth was significantly above recent years, and was two of the highest growth rates since quarterly reporting began in 1991. In total, insured deposits grew by an estimated \$1 trillion in the first half of 2020, an amount equal to approximately three years of insured deposit growth in just two quarters.

Next slide please. This table shows how the change in insured deposits affected the DIF reserve ratio, which is measured as the fund balance divided by estimated insured deposits.

During the first half of 2020, the estimated \$1 trillion increase in insured deposits caused the reserve ratio to decline from its recent peak of 1.41 percent at the beginning of the year, to 1.30 percent at the end of the second quarter.

Prior to 2020, the reserve ratio had not decreased, since the fourth quarter of 2009. It is noteworthy as you see here that during the first half of 2020, the numerator of the reserve

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

ratio, the fund balance, increased by \$4.3 billion and was not a factor in the reserve ratio's decline.

The FDI Act, the Federal Deposit Insurance Act, requires that the FDIC adopt a restoration plan when the reserve ratio falls below its statutory minimum level of 1.35 percent.

The statute further requires that the restoration plan return the reserve ratio to 1.35 percent within eight years of implementing a plan.

As a result of the reserve ratio falling below the minimum level, as shown here, during the second quarter of 2020, the FDIC Board adopted a restoration plan, which took immediate effect in September.

Next slide please. The restoration plan adopted by the Board has three main components. First, under the plan, the FDIC will monitor deposit balance trends, potential losses

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

to the DIF, and other factors that affect the reserve ratio.

Second, the FDIC will maintain the current schedule of assessment rates for all IDIs. Finally, the FDIC will update its fund projections semi-annually, or more frequently as conditions warrant, to determine if changes to the plan are necessary.

Together, the three components of the restoration plan reflect Agency projections that the reserve ratio will likely return to 1.35 percent by the end of the eight-year period, without further action by the FDIC.

Next slide please. The projection that the reserve ratio will likely return to its statutory minimum without further action is subject to considerable uncertainty.

Therefore, the FDIC tested the sensitivity of its projections as depicted in this table. Here the FDIC projected the fund balance and the associated reserve ratio, at the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

end of eight years, assuming different rates of insured deposit growth.

The final column here displays the amount of losses that the fund could absorb and still reach the statutory minimum level within the required time period.

So for example, if insured deposits grow at an annual rate of 2.5 percent on average over the next eight years, the fund could absorb losses of almost \$24 billion and still reach the minimum requirement within that time frame.

With growth of 3.5 percent, the amount available to absorb losses is roughly \$12 billion. While again subject to considerable uncertainty, the FDIC believes that the rates shown in this table represent a reasonable range of likely outcomes for average deposit growth over the next eight years.

Already weekly data for the third quarter suggests that deposit growth for domestic commercial banks has slowed to a rate more

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

comparable to prior year growth. Going forward, low interest rates and reduced fiscal support, combined with weak economic conditions, is expected to play some downward pressure on deposit growth, as depositors draw down on savings.

Even as economic conditions improve, deposits may decline or at least not grow as fast as individuals and businesses redirect deposits towards consumption and higher-yielding investments.

Returning to the table, in all but the highest deposit growth scenario, the FDIC projects that the fund will be able to absorb different levels of losses and still reach the 1.35 percent reserve ratio within eight years.

Similar to deposit growth, whether these projected amounts are sufficient to absorb losses and reach the required reserve ratio is subject to considerable uncertainty.

In recent years, the DIF has

experienced low losses from bank failures. On average, five banks per year have failed between 2015 and 2019, at an annual cost to the fund of about \$400 million.

Depending on the length of the pandemic and the resulting economic and banking impacts, future losses may be higher than the losses experienced in recent years.

Thus far, however, the banking industry has remained a source of strength for the economy. The industry remains well-capitalized in general, and has appeared resilient to early stages of the economic effects of the pandemic.

Overall, based on this analysis, the considerable uncertainty of long-range projections, and because the statutory deadline is eight years away, the FDIC believes that raising assessments based on two quarters of insured deposit growth, albeit extraordinary growth, would still be premature at this time,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

and thus the restoration plan maintains the current schedule of assessment rates for all IDIs.

However, recognizing this considerable uncertainty that's inherent in fund projections, the restoration plan includes the reassurance that the FDIC will continue to monitor the various factors that affect the reserve ratio, and that the Agency will update its projections semi-annually or more frequently as necessary while the restoration plan is in effect.

Further detail of the analysis underlying the restoration plan can be found in the notice published in the Federal Register on September 21st.

In the meantime, however, I'm happy to answer any questions that you might have. I apologize for my camera not working. The light's not coming on at all, so that might be the reason.

MR. DAVIS: Okay. Any questions for

Daniel? Alan, I see your hand. Go ahead.

MEMBER SHETTLESWORTH: Hey, Daniel. Daniel, quick question for you. I'm sure the discussion has happened, although it doesn't appear in your presentation, but it's entirely possible that the FDIC might need to increase basically the assessments on the banks in order to get that DIF ratio -- reserve ratio higher. In those discussions, would it be across the industry, or would it -- could it be focused more on the larger institutions?

MR. HOOPLE: So you're right, Alan, that the discussion did occur, as we bounced ideas around on what might be necessary. Obviously it's a large concern to us not to overburden the industry at this time, which is why we landed where we were.

But there's certainly a lot of possibilities if losses increase, or for example if there's another fiscal stimulus, or if there's an extension of unemployment benefits that lead

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

to, again, that higher personal savings rate that Angela mentioned that raise, again, further this insured deposit growth.

So there's a lot of different scenarios that could lead to just either higher losses or higher annual deposit growth rate, which would -- which may cause us to have to raise assessment rates.

However, one of the other sensitivity analyses that we did look at, which isn't shown here, is we looked at the -- even just a small increase in assessment rates, how much that would grow the fund's ability to absorb losses and still reach this. We looked at one basis point, two basis points, which is significant. I don't mean to minimize that at all.

Typically, to answer your question -- and it did raise our ability to absorb a substantial amount of losses and still reach this reserve ratio.

But to answer your question, in

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

general the statutory authority that we're given to either increase assessments by up to two basis points without notice and comment, or through a special assessment, is usually across the board. That is how it's been done in the past.

However, there may be some flexibility to do it either on a risk-based level, I don't know if the statutory -- and with lawyers on the call, I don't want to stray too far. I don't know if the statute would allow us to do it just on certain sized institutions, but there may be some ability.

It's not a specific discussion we had, but it's something that we certainly have if we do make updates in the future.

MEMBER SHETTLESWORTH: Thank you.

MR. DAVIS: And Alan, I would just add that making a decision like that would be something that would have to be considered by the Board. And so we're just not there yet.

The current plan is to, to maintain

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

the status quo and to continue to monitor it as we move forward. Any other questions? Okay. Jonathan, you're up.

MR. POGACH: Thank you, Chad and Dan, and members of the Advisory Committee. I'm very excited to finish the day for all of you to discuss the 2020 and 2021 academic challenge.

So we launched this in September. This is our first year doing this. And what the academic challenge is, is it's an opportunity to bring real world banking policy questions into the classroom.

So this is structured as a nationwide competition for undergraduate students, and this year's challenge question is: what are the effects of community banks on local economic development?

Next slide. So what we're trying to get out of the challenge, as the FDIC, our objectives are to first increase the understanding of the banking industry and the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

FDIC's role of ensuring the stability of our nation's financial system, and to engage in critical dialogue with undergraduate students.

We're also interested, of course, in promoting interest in future FDIC careers and in economics, accounting, and finance from these young scholars, and we're also trying to build relationships between the FDIC, students, and the academic community.

Next slide. So the way that the challenge is structured is it's going to consist of teams of four or five students, and each student is going to -- or each team is going to have a faculty advisor.

So the teams are going to first submit a written component. I'll discuss the timeline for that on the next slide. It's going to be about six pages, along with an executive summary, tables and graphs.

And then we're going to have economists review the submissions and select five

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

finalists who would be invited to Washington, conditions permitting -- if not we will do this virtually -- to present their work to a panel of judges.

As part of the challenge, the FDIC provides students with some prompts on how to approach the question. Obviously this is a complicated question.

There's a lot of different angles that students might take in trying to address it, so we provide some sub-questions to help them think through the issues and how to think about the data.

We provide a grading rubric to help the students understand how their submissions are going to be evaluated. And we also provide public data sets and a code book that students can use to help engage the material.

They're not restricted to just the data that we provide, but we did assemble some nice data from public sources that at least can

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

be used as a launching point as students engage with the question and the material. Next slide.

So the competition opened on September 18, 2020. We had our first Q&A session with students and faculty advisors on October 7th, where they asked questions about what it was that we were looking for, and trying to understand the different angles that they might take to approach this very interesting question.

We're going to have a second Q&A session for students on November 12th to help them wrap up the material, address any last-minute questions on their findings and submissions, as the submission deadline is going to be on November 20th.

We'll let finalists know and announce the finalists in February of 2021. And then in April of 2021, on April 16th, we're going to invite the teams, the finalist teams to present, again, either in person in Washington, conditions permitting, or virtually on that date.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

We're very excited about the competition. It really seems to be a very promising way to talk with students about some really interesting issues. And you can find more information at the website listed at the bottom of this slide here. Thank you.

MR. DAVIS: Great. Thanks. Sorry, I couldn't get my video to pull up either. Thanks, Jonathan. Any questions? Okay. I don't see any. So Jonathan, thank you very much. With that, that concludes our agenda. Before we close, Director Gruenberg, do you have any comments?

DIRECTOR GRUENBERG: Yes. Thank you, Chad. First let me thank everybody for hanging in there. I got to say this has been a pretty long day -- useful discussions, but a long day.

And just if I may reiterate what a valuable asset this Committee has been to the FDIC over the years. You give us a line of sight into what community banks are experiencing at the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

local level in a way that is difficult for us to do in other forums.

And your presentations, particularly in the round table, I think if I may say, are a great representation of the value community banks offer in the role you all play in your communities and your commitment to serving those local communities.

So thank you again for sticking with us and I hope you found this day valuable. Thank you. Thank you, Chad.

MR. DAVIS: Great. Okay, Chairman McWilliams, would you like to close us out?

CHAIRMAN McWILLIAMS: Yes, and I think my video is working, I hope. Thank you, Marty. Thank you everybody. And thank you to staff for today's presentation.

And perhaps foremost thank you all for sticking with us in a virtual meeting that lasted quite a few hours today. But echoing Marty's comments, the feedback that you give us is so

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

highly valuable to us that I don't mind keeping you there for this long.

This was truly an engaging conversation, and you provided a lot of interesting data points for us to consider as we move forward, both on the regulatory and supervisory fronts.

And I will just say for that, we couldn't get a better crowd around this table, and yet we try every time we have some members leaving.

And with that, I'll just -- I feel a little bit heartbroken, some of the members that are going to leave us this year because their term is up, have been some of the most outspoken members of this Committee.

So we're hoping that we're able to pass the baton from you to another group of folks who are going to be as good at contributing as you have proven to be, and it's a high bar.

Those members are Fred DeBiasi, from

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

Valley Central Bank in Liberty Township, Ohio; James Edwards, of United Bank in Zebulon, Georgia; Keith Epstein, of Roxboro Savings Bank in North Carolina; Bruce Kimbell, First Community Bank of the Heartland in Clinton, Kentucky; Thomas Leavitt, President and CEO of Northfield Savings Bank in Vermont; Lori Maley of Bank of Bird-in-Hand in Pennsylvania; Alan Shettlesworth, of Main Bank, Albuquerque, New Mexico; and Louise Walker, of First Northern Bank in Dixon, California.

And I have to tell you, I truly feel like this is a family goodbye. But it's just a short goodbye, because I'm sure you're going to stay involved with the FDIC, and I encourage you to do so.

And I hope you will tune in to the future Community Bank Advisory Committee meetings. With that, thank you all. Because I think my dogs are tired of me being locked up in a virtual conference for this long as well. Thank

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

you all. God bless you, and stay safe.

(Whereupon, the above-entitled matter
went off the record at 5:38 p.m.)