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October 12, 2021

Mr. James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
Attention: Comments RIN 3064–ZA27

RE: Request for Information on the Federal Deposit Insurance Corporation’s Supervisory Approach to Examinations During the Pandemic, RIN 3064–ZA27¹

Dear Mr. Sheesley:

The Independent Community Bankers of America² (ICBA) is pleased to offer comments in response to the request for information on the Federal Deposit Insurance Corporation’s (FDIC) supervisory approach to examinations during the pandemic. We appreciate the opportunity to share our views on the efficiency and efficacy of remote, off-site examinations and commend the FDIC for soliciting input from community bankers as the agency plans for future examinations.

Throughout the COVID-19 pandemic, employees at both the FDIC and our member banks adopted telework or work-from-home arrangements and participated in remote examinations to best protect the health of bank employees and FDIC examiners. Despite the unprecedented nature of this fully off-site supervisory model, community banks demonstrated strength and resilience in ably transitioning to remote, technology-driven examinations seemingly overnight.

¹ FDIC, “Request for Information on the Federal Deposit Insurance Corporation’s Supervisory Approach to Examinations During the Pandemic” 86 *Federal Register* 44364 (Aug. 12, 2021).

² The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than \$5.8 trillion in assets, over \$4.8 trillion in deposits, and more than \$3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers’ dreams in communities throughout America. For more information, visit ICBA’s website at www.icba.org.

The Nation’s Voice for Community Banks.®

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Overall, ICBA and our members support the FDIC performing examination activities off-site, where practicable. Off-site examinations conducted virtually during the COVID-19 pandemic introduced some process efficiencies throughout the examination process, such as an improved ease of scheduling meetings with examiners, and our members are generally pleased with the convenience and conduct of virtual off-site examinations.

Nevertheless, we believe face-to-face interaction between bankers and examiners is a valuable component of supervision and that some on-site activities ought to resume and be conducted alongside off-site activities.³ On-site examination activities provide uniquely personal opportunities for bankers to educate examiners about their bank's culture and the communities their bank serves. Rural community banks in particular benefit from examiners visiting Main Street small towns and witnessing first-hand both the challenges and opportunities community banks have in offering banking services outside major metropolitan areas and the urban cities in which the FDIC's regional offices are headquartered.

On-site examination activities allow bankers and examiners the opportunity to develop relationships that promote trust and transparency. Relationship-building between examiners and bankers facilitates proactive and robust dialogue between the FDIC and banks, which ultimately supports the safety and soundness of insured depository institutions and the financial system. In the absence of meaningful opportunities for bankers to visit in-person with examiners to ask questions or resolve differences of opinion, there is a risk that communication between bankers and examiners could become chilled. ICBA is particularly concerned this chilling effect may become especially pronounced in a prolonged virtual environment when seasoned examiners retire or leave the agency and are replaced by new, less experienced examiners that are unfamiliar with bank management teams, rural communities, and the mission of community banks.

Accordingly, as the FDIC explores the future of examinations post-pandemic, we encourage the FDIC to adopt a hybrid on-site/off-site examination model that fully leverages all activities that can be practicably and efficiently conducted off-site while still affording meaningful opportunities for bankers and examiners to communicate on-site. Alternatively, we suggest the FDIC consider whether it may be appropriate to perform fully off-site examinations on a rotating basis with fully on-site examinations (such as every other examination).

³ However, whether an activity is best suited for on-site review will depend on the institution's business model, risk profile and complexity as well as whether the activity is related to a safety and soundness examination or a consumer compliance and CRA examination. A decision to conduct examination activity on-site versus off-site should account for whether the activity will be less disruptive to the bank if performed on-site versus off-site. For example, given the complexity of the FDIC's compliance questionnaire, and the propensity for questions, and follow-up exchanges between banks and examiners, examination activity for compliance examinations may be less disruptive to the institution when conducted on-site, whereas a review of financial data for a safety and soundness examination may be better suited to off-site review.

ICBA favors a hybrid on-site/off-site examination model because off-site examinations performed during the pandemic were not entirely free from challenges. While off-site examinations were minimally disruptive for some institutions, others experienced increased examination burden and delayed communications between examination teams and bank staff. For example, banks that did not rely on digital files, and instead used paper files, were required to scan the physical files that examiners would otherwise review on-site. Additionally, some banks spent more time responding to examiner questions (sometimes responding to questions already asked and answered) because exam teams were not communicating as effectively with one another as they once did when examiners were working together in the same room. As some bankers aptly observed, if examiners are downstairs in a bank and there is a question for either bank staff or another examiner, the question must be answered on-site promptly, whereas email responses are often delayed.

Limited internet bandwidth, data plans, and connectivity issues also presented common roadblocks for bankers and examiners during off-site examinations conducted during the pandemic. In some instances, FDIC employees working from home did not have sufficient internet bandwidth at their personal residence to download large volumes of loan files or download loan files that exceeded data and size limits. These limitations required bank employees to re-scan or reformat loan files into smaller pdf documents, a process that was both tedious and time consuming for bank staff. Other banks encountered difficulties when examiners could not remotely access loan imaging systems due to firewalls and other security features. In yet other instances, examination delays occurred because examiners were unfamiliar with loan imaging technology platforms and needed training from bank staff to navigate bank systems remotely.

Despite these challenges, however, ICBA members are pleased with the off-site examination processes conducted to date. We urge the FDIC to leverage off-site examination activities that reduce administrative burden on bankers and examiners, while also promoting productive on-site dialogue between banks and the FDIC. If you have any questions, please do not hesitate to contact me at jenna.burke@icba.org.

Sincerely,

/s/ Jenna Burke

Senior Vice President and
Senior Regulatory Counsel