

Meeting of the Advisory Committee of State Regulators  
of the  
Federal Deposit Insurance Corporation  
Federal Deposit Insurance Corporation Building  
Washington, D.C.

Open to Public Observation via Webcast

March 18, 2021 - 1:00 PM

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

Members of the Committee present at the meeting:  
Bret Afdahl, Director, Division of Banking, State of South Dakota; Kevin R. Allard, Superintendent, Division of Financial Institutions, State of Ohio; Charles G. Cooper, Commissioner, Department of Banking, State of Texas; Thomas C. Fite, Director, Department of Financial Institutions, State of Indiana; Mary L. Gallagher, Commissioner of Banks, Commonwealth of Massachusetts; Ray Grace, Commissioner of Banks, State of North Carolina; Greg Gonzales, Commissioner, Department of Financial Institutions, State of Tennessee; Kevin B. Hagler, Commissioner, Department of Banking and Finance, State of Georgia; Melanie G. Hall, Commissioner, Division of Banking and Financial Institutions, State of Montana; Dawn E. Holstein, Commissioner of Banking, Division of Financial Institutions, State of West Virginia; I. Lise Kruse, Commissioner, Department of Financial Institutions, State of North Dakota; G. Edward Leary, Commissioner, Department of Financial Institutions, State of Utah; John Ryan, President and Chief Executive Officer, Conference of State Bank Supervisors; Antonio P. Salazar, Commissioner, Office of the Commissioner of Financial Regulation, State of Maryland; and Mick Thompson, Commissioner, Banking Department, State of Oklahoma.

Director Martin J. Gruenberg attended the meeting. The following Corporation staff also attended the meeting: John

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Anderlik, Bobby R. Bean, Rebecca Bittle, Zachary N. Brown, Mary Calkins, Leonard N. Chanin, Kymberly K. Copa, Julie A. Cross, Shannon R. Dahn, Debra A. Decker, Doreen R. Eberley, Bret D. Edwards, Diane Ellis, Jasa Gitomer, Patricia S. Gurneau, Martin D. Henning, Travis J. Hill, Arleas Upton Kea, M. Anthony Lowe, Christopher Lucas, Sultan Meghji, Brandon Milhorn, Jonathan N. Miller, Rae-Ann Miller, Arthur J. Murton, Shayna Olesiuk, M. Rowie Pangilinan, Mark E. Pearce, Nikita Pearson, Harrel M. Pettway, Nicholas J. Podsiadly, Ariana L. Rambuyan, Lisa K. Roy, Ryan C. Senegal, Camille C. Schmidt, Michael Shaheen, James Sheesley, Maureen E. Sweeney, John F. Vogel, and Katrice L. Yokley.

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

### **Introductory Remarks**

Chairman McWilliams opened the meeting by welcoming the Committee members from across the country. She briefly commented on the FDIC's focus on core safety and soundness principles and its COVID response. She also noted the agency's efforts to promote innovation, including the hiring of Sultan Meghji as Chief Innovation Officer, the FDIC's rapid prototyping competition, and the proposed development of a standard setting body to aid in vendor due diligence. She also covered recent policy changes intended to remove barriers to innovation.

Chairman McWilliams then introduced Ms. Kea to moderate the meeting. Ms. Kea invited opening comments from Director Gruenberg, who responded by expressing his thanks to the Committee members, acknowledging the ongoing economic hardship and uncertainty affecting communities across the country, and stating his hopes for a turn for the better. He said that he looked forward to the discussion, especially with regard to vulnerability in the area of commercial real estate (CRE).

## Discussion of State Banking Conditions

Ms. Kea introduced a roundtable discussion of state banking conditions. Committee members discussed a range of issues, including the following:

**Economic Conditions.** Most Committee members reported significant improvements in economic conditions, especially when compared to those prevailing in the spring of 2020. Commissioner Gallagher stated, "...vaccine optimism coupled with relief from federal stimulus packages present a hope that economic damage resulting from the pandemic may be contained." Her statement resonated with the reports of most other Committee members. Members expressed support for the American Rescue Plan Act of 2021 and acknowledged other federal and state economic assistance efforts as helpful to citizens, businesses, and thus the banking system.

Members' comments reflected varied experiences across the states and among sectors. Commissioner Leary reported that Utah had recovered all of its job losses attributed to the pandemic, and Director Afdahl and Commissioner Hagler reported recovering employment as well. Commissioner Hagler raised concerns as to whether unemployment rate statistics accounted for drops in workforce participation and whether unemployment disproportionately affected women. Commissioners Gallagher and Holstein also reported improved unemployment rates, but noted that their states' recoveries in this regard were not complete.

Some members raised concerns about CRE conditions in their states, especially in the hospitality and office sectors. Some cited the pandemic-driven transition to telework as a problem for the commercial office market. Director Fite illustrated this by reference to a high profile, multi-floor office tenant in his home city opting to put its workforce into an all-remote work status. Commissioner Hall highlighted the positive effect of this trend on the residential real estate market, attributing some of the increase in residential real estate sales to office workers relocating to her state to work. Most other members commented on the strong residential real estate markets in their states, with home values increasing and affordability concerns rising. Director Fite reported that his agency formed a housing study committee to examine the issue of shortage. Commissioners

Gallagher and Salazar mentioned relief efforts intended to help avoid evictions and foreclosures in their respective states.

News on other sectors was generally positive. Commissioner Kruse reported on 2020 as a good year for farmers in North Dakota, while Director Afdahl said South Dakota faced drought conditions but that sales of agricultural equipment, an indicator he tracks, are strong. The hospitality sector, hard hit early in the pandemic, continued to recover according to members' reports. Several members expressed optimism that the reopening of states and warmer weather will help the hotel and restaurant businesses.

Commissioner Afdahl observed that, despite the generally good economic news, the extensive stimulus complicates forecasting. Commissioner Grace raised concerns about the macroeconomic impact of the recent, additional fiscal and monetary relief "...in the face of what appeared to be a robust recovery."

**Banking Conditions.** Commissioner Grace commented that, "State banks have navigated the pandemic surprisingly well." This was a common sentiment expressed by Committee members. Nearly all described their state banking conditions as stable or strong, with none reporting broadly negative conditions.

Most members described continued strong asset growth and stable asset quality. Comments reflected a lack of certainty as to the sustainability of this growth, with some members attributing much of the growth to Paycheck Protection Program (PPP) loans and other stimulus programs; however, others believe that some of the growth will be longer term. Commissioners Salazar and Grace commented on the value of the PPP as a loan generator during a time when traditional loan demand has softened. Director Afdahl noted that increased direct support to agriculture has hurt loan demand in this area. Members reported that asset quality remains stable, with some observing that forbearance and moratorium activity is abating and deferrals are decreasing. Members described monitoring asset concentrations in CRE. Director Afdahl called attention to government-sponsored enterprise reports of 90-day delinquencies on residential loans, indicating a need for attention even to this well-performing asset class.

Members said that the increases in deposits and asset volumes are affecting capital ratios and earnings, though none reported institutions falling into undercapitalized status as a result. Member Hall said she was working to make sure her state's institutions were prepared to maintain capital adequacy in the event the asset and deposit increases proved permanent. Several commissioners noted the high liquidity in their states' institutions and the concomitant earnings impacts from net interest margin compression in the low-yield environment. Commissioner Hagler noted an observed drop in insufficient funds fee income, which speaks well for consumers but adds to the earnings pressure. Still, Director Fite reported banks in Indiana achieving record earnings in 2020, and Commissioner Gallagher observed some recovery to pre-pandemic earnings in Massachusetts banks.

Several members complimented bank management for thriving in pandemic conditions. Commissioners praised management efforts to protect local economies while also taking necessary precautions for the safety of staff and customers. Some observed that the unusual financial conditions of 2020 make budgeting and other planning difficult.

A few members reported de novo activity, with recent charter issuances and banks in formation. Commissioner Hagler and Director Fite said that prevailing liquidity and earnings conditions indicate potential for increased merger and consolidation activities.

**Covid-19 Pandemic.** Nearly all members reported on the status of vaccine rollouts in their states, attributing much optimism and expectations of increased activity to broad vaccine availability. The members described differing levels of public health restrictions in their own states, with some still significantly locked down and others reporting full openness.

**Cybersecurity.** Committee members cited cybersecurity as a major concern. Commissioner Cooper said that the primary threat to banks is possibly not asset quality, the pandemic, or weather, but rather cyber threats that are growing in sophistication and intensity. Commissioner Gallagher emphasized the need for continued information sharing on cyber and information technology (IT) matters between federal and state

regulators and indicated that ransomware preparedness is her top IT priority. Commissioner Grace noted that the reluctance of some banks to spend to upgrade cybersecurity is discouraging and may indicate the need for supervisors to address this problem. Commissioner Holstein, though, observed that her banks have prepared for cyber threats related to the pandemic and have proved responsive in this regard.

**Innovation.** Committee members welcomed the FDIC's efforts to foster innovation and described their own activities in this regard. Commissioner Holstein reported activity in her state's FinTech sandbox and said the West Virginia legislature is taking steps to clarify its framework to attract innovators. Superintendent Allard said Ohio is proactively fostering prudent innovation. He said that his division formed a Technology Advisory Group of chief information officers from some of the state's more innovative institutions to discuss innovation, cybersecurity, data governance, and supply chain threats with his agency and federal partners. He mentioned his state banking commission's desire to revisit innovation guidance, especially with regard to bank and FinTech partnerships. Commissioner Salazar spoke of the importance of innovation to community banks contending with competition from FinTech companies and other nontraditional providers of financial services. Commissioner Grace expressed concerns about community banks' difficulty in keeping pace with growth in mobile technology, the use of which he said has accelerated during the pandemic. Commissioner Gonzales also talked about state efforts to expand broadband access for businesses and communities in his state, demonstrating attention to an inclusiveness aspect of innovation.

**Examinations.** Several members commented on their states' bank examination activities. These members described continued use of remote examinations, though several indicated the potential to return to onsite examinations this summer. Commissioners Cooper and Thompson said that the remote examination process was proving sufficient. Commissioner Kruse and Superintendent Allard said that positive feedback from institutions on the remote examination process indicates a need to investigate potential long-term changes to the examination process. Commissioner Holstein's statement that "the face-to-face value still can't be discounted" in the bank examination process seemed to be shared by other members. Commissioner

Leary indicated that hiring and training examiners is challenging in the remote work environment and expressed concerns about accomplishing culture and knowledge transfer without the in-the-room examination experience.

**Minority Depository Institutions and Diversity, Equity and Inclusion.** Commissioner Gonzalez described his state government's efforts to enhance its partnership with minority depository institutions, noting that his state is home to the oldest, continuously operating minority bank in the United States. Superintendent Allard reported recent interest in minority banking institutions in Ohio, and his state's support of those efforts. Commissioner Grace reported on the North Carolina Bankers Association's diversity, equity, and inclusion efforts.

**Other Topics.** Commissioner Salazar mentioned climate change as an issue affecting bank regulators. Commissioners Cooper and Leary described weather and environmental effects on their states' economies and institutions. Commissioner Kruse thanked the FDIC for assistance in her state's recent revision of its bank failure statute. Commissioner Leary and Director Afdahl noted developments and discussions resulting from hemp and cannabis legalization.

Following this discussion, Ms. Kea introduced Shayna Olesiuk, Associate Director, National & Regional Risk Analysis, Division of Insurance and Research (DIR), and Camille Schmidt, Chief, Emerging Issues Section, Policy Branch, Division of Risk Management Supervision (RMS). Ms. Olesiuk presented on the national economy and banking trends, and Ms. Schmidt presented on trends in risk management practices.

After welcoming questions of the staff presenters and hearing none, Ms. Kea announced the meeting would briefly recess. Accordingly, the meeting stood in recess at 2:54 pm.

### **FDiTech Update**

The Committee reconvened at 3:05 pm. Ms. Kea introduced Sultan Meghji, FDIC Chief Innovation Officer. Mr. Meghji provided an overview of the FDiTech's innovation program,

describing its themes of inclusion, resilience, amplification, and protecting the future.

### **Research Update: FDIC Community Banking Study and Agricultural Lending**

Ms. Kea then introduced John Anderlik, Assistant Director, National & Regional Risk Analysis, DIR, who presented on the FDIC's 2020 Community Banking Study and the recent *FDIC Quarterly* article, "Farm Banks: Resilience Through Changing Conditions." Mr. Anderlik invited members to contact him with any questions.

### **State-Federal Coordination**

Ms. Kea introduced Doreen Eberley, Director, RMS; Mark Pearce, Director, Division of Depositor and Consumer Protection; Rae-Ann Miller, Senior Deputy Director, Supervisory Examinations, RMS; John Vogel, Deputy Director, Operations and Chief of Staff, RMS; and Martin Henning, Deputy Director, Operational Risk, RMS. Ms. Eberley discussed recent examination practices and the partnership with state supervisors. Mr. Pearce reviewed customer service and consumer compliance experience during the pandemic, as well as efforts to reach the unbanked. He also discussed recent FDIC work with state banking and insurance authorities to learn how states view mutual aid societies and whether mutual aid policies are able to meet regulatory requirements for consideration under the federal flood insurance rules. Ms. Miller commented on the modernization of examination tools and processes. Mr. Vogel provided background on recent developments in remote training during telework. Mr. Henning discussed IT and cybersecurity supervisory activities, including supervision of service providers and information sharing with state regulators.

The panel accepted comments and questions from the Committee members. Member Cooper expressed his thanks for the FDIC's efforts regarding information sharing as well as his support for legislation modernizing the Bank Service Company Act. Commissioner Kruse raised questions about the FDIC's supervisory approach to stablecoin and to FinTech partnerships with banks. Ms. Eberley responded by highlighting the FDIC's engagement on these topics and suggesting further discussion with the Committee in the future. At her invitation, FDIC



General Counsel Nicholas Podsiadly and Director Pearce also responded. Mr. Podsiadly outlined regulatory responses to stablecoin and other cryptocurrency assets. Mr. Pearce described the FDIC's consumer education efforts and its approach of holding institutions accountable for federal consumer protection compliance when offering products through third parties.

### **Closing Remarks**

Following the presentations, Ms. Kea invited closing remarks from Director Gruenberg. Director Gruenberg reiterated his thanks to the members for their presentations and participation. He expressed his view that the partnership with state regulators is central to the FDIC's ability to carry out its mission. He also thanked FDIC staff for their contributions.

Chairman McWilliams thanked the Committee members and the FDIC staff for their participation. She emphasized that the Committee meetings provide a valuable forum for strengthening cooperation and teamwork as we develop policies regarding the regulation of supervised institutions. She closed with her hopes that, with the rollout of COVID vaccinations, the next meeting of the Committee in the fall of 2021 will be held in person.

Having no further business to discuss the meeting was adjourned at 4:25pm.

Debra A. Decker  
Federal Deposit Insurance Corporation  
Assistant Executive Secretary  
and Committee Management Officer  
FDIC Advisory Committee of State Regulators

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

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Jelena McWilliams  
Chairman  
Board of Directors  
Federal Deposit Insurance Corporation