UNITED STATES OF AMERICA

FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE OF STATE REGULATORS

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PUBLIC MEETING

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WEDNESDAY,
OCTOBER 6, 2021

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The Committee convened at 1:00 p.m. EDT via video-teleconference, Jelena McWilliams, Chairman, presiding.

ADVISORY COMMITTEE MEMBERS PRESENT:
BRET AFDAHL, Director, Division of Banking, South Dakota Department of Labor and Regulation
KEVIN R. ALLARD, Superintendent, Division of Financial Institutions, Ohio Department of Commerce
CHARLES G. COOPER, Banking Commissioner, Texas Department of Banking
MARY L. GALLAGHER, Commissioner of Banks, Massachusetts Division of Banks
GREG GONZALES, Commissioner, Tennessee Department of Financial Institutions
KEVIN B. HAGLER, Commissioner, Georgia Department of Banking and Finance
MELANIE HALL, Commissioner, Montana Division of Banking and Financial Institutions
DAWN HOLSTEIN, Commissioner, West Virginia Division of Financial Institutions
LISE KRUSE, Commissioner, North Dakota Department of Financial Institutions
G. EDWARD LEARY, Commissioner, Utah Department of Financial Institutions

JOHN RYAN, President and CEO, Conference of State Bank Supervisors, Washington, D.C.
ANTONIO P. SALAZAR, Commissioner of Financial Regulation, State of Maryland
CHARLES VICE, Commissioner, Kentucky Department of Financial Institutions

FDIC BOARD MEMBERS & STAFF PRESENT:
JELENA MCWILLIAMS, Chairman
MARTIN J. GRUENBERG, Director, Federal Deposit Insurance Corporation
MICHAEL HSU, Director, Federal Deposit Insurance Corporation, and Acting Comptroller of the Currency
LISA ARQUETTE, Associate Director, Division of Risk Management Supervision
DOREEN EBERLEY, Director, Division of Risk Management Supervision
DIANE ELLIS, Director, Division of Insurance and Research
MARTIN HENNING, Deputy Director, Division of Risk Management Supervision
DANIEL HOOPLE, Financial Economist, Division of Insurance and Research
SULTAN MEGHJI, Chief Innovation Officer, FDITECH
SHAYNA OLESIUK, Associate Director, Division of Insurance and Research
MARK PEARCE, Director, Division of Depositor and Consumer Protection
LISA ROY, Associate Director, Division of Risk Management Supervision
BETTY RUDOLPH, National Director, Minority and Community Development Banking
CAMILLE SCHMIDT, Section Chief, Division of Risk Management Supervision

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

1:02 p.m.

CHAIRMAN McWILLIAMS: Good afternoon or good morning for those of you who are on the West Coast. Welcome to the fall meeting of the FDIC Advisory Committee of State Regulators.

I'd like to call the FDIC's Advisory Committee friends because we have so much in common doing joint exams for states and the relationships that we have with state supervisors that span over decades.

So, it truly feels this is an Advisory Committee of friends. Thank you for taking the time out of your busy schedules to participate today. I know you all have jobs regulating banks.

So, giving us most of your day is a privilege, and we're grateful for that. I did hope that by this point in time we would actually meet in person. We're not, obviously. Hopefully, next time. I've been saying "next time" for several quarters now, but we'll see how things develop with the pandemic.

Before we begin our meeting today, I would welcome a new member to the Committee. Charles Vice, Commissioner of the Department of Financial Institutions from the

Commonwealth of Kentucky, has graciously agreed to join the Committee.

Charles, welcome. I will say that the other commissioners probably cajoled you to join. This is actually really a hard job. I don't know what you were thinking, but welcome.

So, again, thank you, everybody. Welcome. I will now turn the program over to Doreen Eberley, who will serve as the moderator for today's meeting. And, I'm really excited to hear what you all have to say.

Thank you and welcome again.

MS. EBERLEY: Thank you, Chairman McWilliams. We are fortunate to have with us today Director Gruenberg and Acting Comptroller Hsu. Would either of you like to share some remarks with the Committee at this time? And, I'll start with Director Gruenberg.

DIRECTOR GRUENBERG: Thank you, Doreen. I'll be very brief. I'd just like to thank all of the commissioners for taking the time to participate today. We deeply value our working relationship.

In some ways, the foundation of our supervisory responsibilities is our collaboration with state commissioners. I particularly look forward to the

roundtable with your comments and your feedback from your particular states.

When I think back to last year and what we anticipated might be the challenges facing the banking industry now, I think we probably are in a better situation than we might have expected last year. I think, nevertheless, considerable uncertainty in the short and long term. So, really, I welcome this opportunity to hear from you and to engage with you in terms of what you're seeing in your states.

Doreen, thanks a lot.

MS. EBERLEY: Thank you, Director Gruenberg. Acting Comptroller Hsu?

MR. HSU: Thank you, Doreen. This is my first Advisory Committee of State Regulators meeting, so first let me thank all of you for taking the time to meet with us today. It's exciting for me to be in this virtual room with so many fellow regulators. It’s nice to be -- There's a kinship and brethren with fellow regulators. I very much look forward to the discussion, particularly hearing what you're seeing in your states, and how your institutions are doing.

Just to echo something that Marty said, the last 18

months have been pretty extraordinary, and while there is continued economic growth and further improvements in credit quality, there are some challenges.

I think we all know loan growth rates remain below average, and there are still some communities, geographic and demographic, that continue to face heightened hardships exacerbated by the pandemic.

With these opportunities and challenges in mind, I look forward to the comments this afternoon and the opportunity to engage as long as I'm able to do so. So, thank you.

MS. EBERLEY: Thank you, and welcome. So, before we continue I'd like to turn things over for a moment to General Counsel Nick Podsiadly for some brief remarks. Nick.

MR. PODSIADLY: Great, thank you, Doreen. Madam Chairman, Director Gruenberg, Director Hsu, distinguished members of the Advisory Committee, good afternoon.

Because we have the pleasure of being joined by three members of our board, we need to do just a little bit of housekeeping.

Specifically, under the Government in the Sunshine Act, whenever a quorum of the FDIC Board of Directors

deliberates on agency business such as a regulation or a matter of policy, the Board is generally required to have an open meeting subject to public notice and certain requirements. This meeting is not a Board meeting called for those purposes.

Accordingly, general discussions, which may occur among the Board members at this meeting, on subjects relevant to the FDIC's responsibility, but which do not pose specific issues for the Board resolution either now or reasonably anticipated in the future, do not constitute a meeting that is required to be open to the public and subject to the notification requirements under the Government in the Sunshine Act.

Similarly, informal or exploratory discussions among Board members do not constitute a meeting that is required to be open to the public and subject to the notification requirements. Provided that any such discussions are preliminary in nature and that there are no relevant proposals for action pending before the FDIC and that the merits of any proposed agency action would be open to full consideration by the Board at a later time.

If any of these types of events occur today, staff will identify these matters that are being discussed by

the Board or by the Advisory Committee. And, if those need to comply with the Sunshine Act, we will advise the Board members that those matters should be deferred and presented to the Board at a later date, at which time the Board can engage in a full and open discussion in accordance with the Sunshine Act. If you have any questions, I will be glad to answer them and our staff from the Executive Secretary will be here today to monitor as well. Thank you.

MS. EBERLEY: Thank you, Nick. We'll go ahead and start this afternoon by turning to the committee members for a discussion about trends and issues relating to the banking environment and conditions in their states.

After we've heard from the committee members, we've also asked some FDIC staff members to talk about their observations.

Shayna Olesiuk, Associate Director, National and Regional Risk Analysis from our Division of Insurance and Research, will cover some observations about the national economy and banking trends. And then, Camille Schmidt, Chief of the Emerging Issues Section in the Division of Risk Management Supervision, will share some observations from our supervisory activities.

I'd like to start our committee member discussion with Dawn Holstein, the West Virginia Commissioner of Financial Institutions, who will then be followed by the other Committee members in the order that we provided earlier.

So, Dawn, thank you for going first, and I'll turn it over to you.

MS. HOLSTEIN: Alright, thank you, Doreen. Good afternoon, good morning, everyone, it is my pleasure to be with you here today. And, I would like to thank Chairman McWilliams for this opportunity to represent the State of West Virginia and for continuing this important dialogue. I will provide a brief update on the local conditions here in West Virginia. The West Virginia economy overall is holding its own and the state's revenue department has recorded significant budget surpluses recently. Our unemployment rate reveals a slow and small, but positive trend over the last six months and is currently at 4.8 percent.

The banking conditions in West Virginia remain stable and there are currently 38 West Virginia state-chartered banks with $33 billion in assets under our supervision. And, additionally, we also supervise credit unions and

over 1,200 non-depository licensees. On June 7th of 2021, our office staff returned physically to the office.

It has not been without some challenges. There are no masks nor vaccinations mandates for state employees in West Virginia, and we've had to juggle exposures, testing, and absences as a consequence of COVID.

But, all in all, we're making do and it seems to be working just fine. Our examination staff remains in a remote examination posture; and it is anticipated that the remote exams will continue at least through the first quarter of 2022.

The vaccination rollout in West Virginia was very efficient at onset, but, unfortunately, those willing to get vaccinated did not keep up with the distribution opportunities.

At last look, we were 50th in the nation for percentage of vaccinated population. So, as you can imagine, the consequences of low vaccination rates has led to record high hospitalizations and deaths for our state, which is very unfortunate.

Our governor has done many things, incentives and everything, which are probably making some difference, but is not reflective in the percentages.

As far as our West Virginia banks go, they continue to show their resilience and their ability to navigate the pandemic. Our institutions continue to traverse the second, or this delta wave of COVID; and they are successfully using what they learned in 2020 to navigate 2021, and continue to make sound risk management decisions.

Asset quality is holding up well, but we will continue to watch it very closely as the foreclosure moratorium expiration makes those potential asset quality issues.

Overall, West Virginia banks have remained proactive in their monitoring, their managing, and their mitigating of their identified risks. And, on a very positive note, last week we had our first de novo inquiry in probably more than ten years. So, I hope that is an indicator of some very positive movement here. Our IT exam team continually monitors cybersecurity threats and notifies our institutions when cyber threats occur, as well as providing a very rigorous IT exam for our institutions.

We are currently using the ransomware self-assessment tool to assist our banks to become self-aware of those particular additional risks as ransomware

continues to be at the forefront.

Our agency continues to work through several items, such as our fintech sandbox, marijuana banking as medical marijuana has been legal in West Virginia since April of 2017.

And, we are also working currently on how best to supervise and examine the risks that are involved for banks who are making investments in fintech companies.

We currently have several of those investments that have happened. And, I'm definitely a glass half-full type of person typically, but the last 18 months have surely tested that mentality in myself, at times.

But, I do think what comes to mind is my favorite quote that applies to this trying period and that quote is "Adversity does not build character, but it reveals it."

I feel like that has never been truer through many aspects of the pandemic for our banks, for our staff, and also extending to our relationships with our peers in the other state and federal agencies.

In my opinion, all have stepped up to make sure financial institutions remain stable and strong throughout the pandemic.

The interagency calls organized and managed by the

FDIC have supplied just invaluable information sharing and transparency for all the participants. And our agency relationship with the Atlanta Regional Office, under the Leadership of Regional Director John Henrie and his team, has never been better. We appreciate the efforts to communicate and increase the level of trust and collaboration between West Virginia and the FDIC, and that's where my glass is half-full. We have this pandemic and it has been just an atrocity of sorts for the whole United States. However, there have been positives that have come out of it, and I think our collaborative relationships are one of those things. So, I look forward to continuing to enhance and foster our relationship; and I really thank you again for the opportunity. At this time, I would like to turn it over to Utah Commissioner, Ed Leary. Thank you.

MR. LEARY: Hello, all. Chair McWilliams and members of the FDIC Board, I'm Edward Leary, Utah's Commissioner of Financial Institutions. Utah has 37 FDIC insured banks with total assets of $371 billion.

Utah Governor Cox issued a return to office order on June 1 of 2021, that covered the Utah DFI. However, starting shortly thereafter, the fires in the states to

the west of us caused unhealthy air along our Wasatch front.

Earlier this year, a new law became effective that requires state agencies to reduce in-office employees by 90 percent on unhealthy air days. So, the net effect is that the UDFI is continuing to operate with a limited in-office presence. As of this time, all examinations are still being conducted remotely. The Utah DFI has a Board of Bank Advisors comprising senior management of state banks. The Board meets quarterly.

Based upon some of the recent discussions, the following are what we believe to be the top five issues for Utah bankers.

Number one, NIM compression. Margin pressure continues to be a significant concern. Despite tight margin, Utah banks have maintained healthy earnings in part through efficiency, low provision expenses in the recent two quarters, and PPP income.

Bankers are cautiously monitoring the situation as government stimulus winds down, PPP loans roll off, and the ongoing effects of the pandemic continue to be uncertain.

Two, cybersecurity, keeping up with emerging threats

and bad actors, is a constant challenge. Utah bankers continue to devote more time and resources to this area. Boards are increasing their level of understanding and enhancing the government's framework around cyber risk. Competition for talent: the market for key positions is incredibly competitive, particularly in the areas such as IT and compliance.

Banks are reporting difficulty attracting talent, including markedly lower application numbers for job openings. Additionally, prospective applicants in some cases expect more flexibility in the work environment, including work from home options.

In Utah, the challenge is multiplied by one of the lowest unemployment rates in the country, and a number of financial services companies relocating to the state or increasing their presence here.

Number four, shifting CRE landscape. Many bankers are closely monitoring the recovery in CRE and sectors that may be lagging or face longer-term challenges due to the effects of the pandemic. While most sectors in the state have rebounded strongly, downtown office space is one area that appears to be slightly lagging in terms of vacancy rates and prices, though that has not translated

to troubled credits yet.

Five, meeting rapidly evolving consumer expectations. Bankers are increasingly competing with fintechs to adapt to and meet new consumer expectations and financial services.

In many cases, this leads to partnerships with fintechs. Bankers see this intermediation from a customer as a significant risk. There is concern what this shifting landscape means for the industry in the long term.

The Utah economy continues to perform very well. Utah's unemployment rate is 2.6 percent; however, concerns are prevalent in housing affordability. Median home values have increased nearly 27 percent from July 2020 to July 2021, whereas the national average was closer to 17 percent.

The weather and the environmental issues continue to adversely affect Utah and Utah banks, predominantly from the extreme year-round drought resulting in lack of winter snow and resulting summer fires, which often decrease our air quality.

In conclusion, I want to thank Regional Director Kathy Moe, for establishing and conducting monthly zoom meetings during the pandemic for the states and federal

banking agencies in the West. The coordination and co-operation with the San Francisco Regional Office and the Salt Lake City Field Office has been extraordinarily helpful.

Thanks again for this opportunity to address you. I'll pass now to Kevin Allard of Ohio.

MS. ROY: Okay, Commissioner Allard, we're not hearing you right now. So, why don't we go ahead and jump to Commissioner Kruse and we'll circle back to you. Thank you.

Commissioner Kruse, would you mind stepping in?

MS. KRUSE: I'm here, hopefully you can hear me.

MS. ROY: Yes, we can.

MS. KRUSE: I am Lisa Kruse. I am the Commissioner in North Dakota. I supervise 62 banks with total asset size of $37.5 billion. Our banking industry is healthy and as is true for most parts of the country, they are flushed with liquidity.

So, the biggest challenge I foresee in the next year or so is finding enough loan demand. And, since our state, we haven’t had any trouble banks for quite some time and everything has been good, I have started the messaging about how bad loans are made in good times, and warning

against relaxing underwriting standards.

That is such a temptation for banks when there is such competition for loans, so I just want to make sure that we are proactive. The other main talking points I use for the industry relate to cybersecurity and fintech partnerships.

I have talked about cybersecurity for a long time because it is a concern, but then recently a banker asked me if we were not so concerned about asset quality anymore, and my response to that is typically, we don't see loans go bad, your whole loan portfolio go bad overnight. We see that coming and it gives us time to rectify the situation. And, it's the biggest driver on the balance sheet so we're always going to focus on asset quality and the loan portfolio and the investments.

But, cybersecurity, you have to be prepared because that can happen overnight and you're done with the ransomware attack. So, really, that's been my focus when I speak to our bankers, just to be proactive so they're prepared.

The ups and downs of agriculture is always the biggest part of our economy. And, this last year, we experienced both floods and droughts. And, the drought

has been severe, but our crop producers have received insurance and government support to make it through and prices have been good.  So, overall, the effect on our banks has been better than expected.

Unfortunately, there has been livestock producers having to sell, just the cost and availability of feed put pressures on the segment.  And, our agricultural banks, they're well diversified within the agricultural sector. So no banks have been severely affected despite these challenges. These community banks are relationship-based. They just do a good job of working with their customers and walking with them through these hardships.

It also confirms to me that our agricultural bankers know well how to manage and mitigate risks because these challenges come and go; and it's nothing new to the seasoned banker who has experienced similar conditions in the past.

Although our state is completely open for business, we also see the workforce issues that is prevalent across the country.  Our unemployment rate for August was 3.2 percent.

We had really low unemployment even before the pandemic, so we just need workers.  It has worsened in a

way right now because we're seeing restaurants reduce their hours or close just due to the lack of workforce.

In August, we went back to do on-site examinations and, of course, we are careful and flexible due to the COVID concern, and we really listen to the bankers to make sure everybody is comfortable if we are going to be on-site.

We are doing a hybrid approach, which we are hoping would be our new normal. It means we do not send as many employees and people on-site to conduct the exam as in the past.

We try to limit it to three or four people; and then the rest is handled off-site. And, that reduces the burden the examination can be for the banks, but it also reduces the travel required by our examiners. And, that helps our retention efforts.

So far, the feedback has been very positive, the bankers are glad to see us back and we are glad to be back. I believe that examiner presence is important for effective and comprehensive supervision, and our community banks are relationship-based, so for us to build a relationship with employees at the bank is equally important, just so we can have an open dialogue between

regulators and any bank employee regardless of their role in the organization.

I just believe that when we, as regulators, are accessible, we can better give guidance and help where it is most needed. Sometimes we need to have that dialogue to really understand what the need is.

That concludes my remarks; and I'd like to turn it over. I assume we should try Kevin Allard, if he's available, again, from Ohio.

MR. ALLARD: Thanks, Lise. Apologize for the technical difficulties. Good afternoon Chair McWilliams, Board Member Gruenberg, Acting Comptroller Hsu, and FDIC staff.

I'm Kevin Allard. I'm superintendent from Ohio. I am pleased to report out this afternoon the status of Ohio banking conditions. First, a couple of things to report from an economic perspective.

Last month, Ohio's unemployment rate rose to a 5.42 percent, from 5.2 percent a month prior. Ohio's GDP has essentially mirrored the national GDP rate of 6.6 percent over a similar time period.

Ohio banks remain strong. The median Tier 1 Capital [ratio] of Ohio banks is 10.3 percent at June 30th, even

despite significant asset and deposit growth in the last 18 months. More importantly, we have not seen any significant asset quality deterioration to-date. Obviously, the trend we're paying attention to is continued, compression on the net interest margin.

Ohio banks are not immune. At June 30th, the median net interest margin for Ohio banks was 3.13 percent, while still posting immediate ROAA of eighty eight basis points. However, coming from our micro-surveillance function, we are beginning to see a trend in the reduced number of financial exceptions reported.

With regard to corporate activity, a couple of things to report out on, we are continuing to see a consolidation in terms of merger activity. I'm very pleased to report that we had Ohio's third de novo bank open in May of this year. And, lastly, we have had some very strong and recent interest in MDIs in Ohio.

The Ohio Bankers League, one of the trade groups in Ohio, organized and sponsored a very unique event earlier this year with the aim of providing more diversity in the boardroom for Ohio banks. This program was titled Prospective Diversity Director Symposium. Nikita Pearson from the FDIC's Office of Minority and Women Inclusion led

off the program.

Collectively, the regulators, FDIC, the Federal Reserve, the OCC, and my division provided a high-level overview of regulatory requirements for banks in general and for individual directors.

We di]scussed the examination process and we shared best practices in running a successful banking organization. The centerpiece of the event was a panel of three former and current minority directors who shared their experiences in serving on a bank board. It would be great to see similar programs take place in other states.

From an outreach perspective, earlier this year we had, virtually, our Ohio Bankers Day. We did not host this event last year for the first time in 35 years. With over 100 banks and interested parties attending virtually, clearly, there is a desire for bankers to hear more from their regulators.

The event was highlighted by discussions with Ohio bankers regarding the future of bank examinations, the prospects for retaining the deposit growth experienced in 2020, and a general discussion with regard to asset quality conditions in Ohio.

With regard to future examinations in Ohio in the

hybrid environment, in general, Ohio bankers are supportive of the hybrid model, but still desire to have that face-to-face time with their examination teams.

It is very important in these discussions that we engage our federal partners, so we can continue to operate in sync as that is important for the industry.

Chairman McWilliams, that is my report this afternoon and I thank you for the opportunity.

MS. EBERLEY: Thank you. Can we move to Antonio Salazar now? Antonio.

MR. SALAZAR: Good afternoon, thank you, Doreen. This is Commissioner Tony Salazar from the State of Maryland. Chair McWilliams, Board Member Gruenberg, and Acting Comptroller Hsu, thank you very much.

Staff, I appreciate the opportunity to be here today and talk to you about Maryland's conditions. The COVID conditions in the state of Maryland are very good. Our positivity rate is below four percent.

Over 85 percent of Marylanders 18 and older are vaccinated. So, we're very pleased on those metrics and the hospitals are handling the situation really well right now. So, that is I think leading the way towards the economic conditions and the business conditions, which are

also doing well. Maryland reported just recently unemployment rate at the lowest level since the start of the pandemic, we are below 6 percent now, so we're very happy with that and the trend on the downward slope. Employers and the bankers are also reporting what you've heard from some of the other states, which is employment tightness, difficulty hiring.

One of the areas that is of importance, obviously, to everyone is the IT area and they are, I think it was mentioned before in another state, also facing difficulty finding adequate IT staff. So, that is an area of concern. We're also having those same issues. We have a variety of posts that are open, and we are trying to hire them and finding that that is a difficult prospect these days.

But, be that as it may, conditions seem strong overall. I'll talk in a minute about the conditions of the banks, which we're happy to report are good.

One thing that's happening in Maryland is the consolidation trend in the Maryland banking marketplace continues in fiscal year 2020...the last one, 2021, we lost two banks, so that leaves us with 26 state-chartered institutions.

Right now, we have two more so at a minimum at the

end of this fiscal year we'll be down to 24. There are 80 banks operating in the State of Maryland, so that means there is about a third of them that are state charters. There's also 74 credit unions and other trust companies operating.

The good news is from our state perspective, obviously, despite the losses, assets are up at state-chartered institutions, deposits are also up, and the state depositories are continuing to grow with innovative programs, I'll tell you a little bit about that in a second, and some proactive actions that they do. Generally speaking, and overall, they have strong asset quality and they're augmenting capital. So we're pleased to see that, hope it continues.

As you've heard before, I don't think we're immune from the compression of the net interest margins, while the ROAs are generally up as well. I think a lot of that comes from controlling overhead and the loan portfolios turning out to be a little better than they were before. So, they can turn back some of their reserves.

In terms of capital, I mentioned that some of our institutions here in the state have been taking advantage of the conditions right now, and they've been pursuing

some successful capital raises. So, we were pleased to see that, we gave them the opportunity to go forward. And, we're happy to report that out of our 24 banks now, two of them have crossed the $10 billion threshold.

So, we have a couple of large institutions that are operating here in the state. In terms of some of those innovative programs, I'll tell you just two.

Right now one of the banks recently announced that they are pursuing a more ESG-focused strategy going forward. So, we had a good meeting with them and will be curious to see and hopeful that that works out well for them. From a business perspective, obviously it's a good social program to pursue.

Secondly, we have another bank that has started to dip into the marijuana service business from a loan perspective. Previously, in the State of Maryland, there was one federal thrift that handled marijuana banking. Now, we have another state charter that has gotten in, as I mentioned, that's on the loan. That is a new development, so we'll be curious in watching that to see how it goes.

From our office's perspective, we are continuing to work in a hybrid. So, we've been hybrid since Governor Hogan called the state employees back in July. We have not

really been on-site much, but just as others have said, the bankers do appreciate when we come on; and our plan going forward was to continue with hybrid examinations going forward.

We're also in the process of moving our offices, so we will be moving in the next four to six months. We'll be staying in Baltimore, but that has led our office, just as it has led other businesses at post-pandemic, to re-evaluate their space needs. The office is working on a hybrid model right now, with the majority of staff either working fully remotely or working two days a week. Lucky us, managers, we're generally working three to five days a week.

But, be that as it may, it's working out well. We'll be seeing a reduced footprint in our new offices, which will be conjoined with the Department of Labor under which we serve. The ultimate plan is for the entire Department to move but that will be a year or two down the line.

Lastly, the CSBS District One, which is basically the Northeast states from the District of Columbia north, along with Puerto Rico, have put together a climate change taskforce where the different states are working and that is being led primarily by New York right now, who you know

is one of the leaders in this area.

We are working on that taskforce, our staff and others, to put together some tools that can help other state regulators navigate this new area and also provide information for their banks, so that we can all get up to speed and work in that area.

Lastly, we're also working on a foreclosure initiative in our state where we're having discussions now with state and industry because we have some concerns. Areas in Maryland have traditionally shown a higher rate of default; and that is continuing as a result of the pandemic, so we're concerned of that with the CFPB’s action on the moratorium ending at the end of the year, we will see elevated levels of foreclosure. So, we wanted to engage the different groups to talk about Maryland's process and see what could be done from a very practical perspective to improve messaging, improve notices. We want to make sure that the citizens and borrowers have all the knowledge they need to take advantage of the programs that are out there; and try to make sure that foreclosures are at their lowest level, particularly in the hotspots. So, we're trying to put together information that lets us identify where we really need to get out and try to make

a difference. Because it seems that the elderly and communities of color are at most risk right now.

I did say lastly, but one last thing, we're also working for the legislature on a report on banking deserts in the State of Maryland. As I mentioned, we'll see where that comes out but we do have 80 banks, 74 credit unions, and over 1,300 branches. So, financial services are well represented there.

I would like to thank, of course, Frank Hughes, up in New York, and their office because we've had great relations with them, very communicative, and I appreciate all they've done to help us stay in touch during this pandemic.

So, with that, I will turn it over the Commissioner from the State of Georgia, Kevin Hagler. Thank you.

MR. HAGLER: Thanks, Tony. I appreciate that and of course, it's an honor to have the opportunity to present today. Kevin Hagler, Commissioner of Georgia Department of Banking and Finance.

Just to level set, we have 121 state-chartered banks in Georgia with about $121 billion in total assets.
I also have 48 credit unions with about $27 billion in total assets and another 34,000 licensees that we looked

at through our non-depository side of the house.

I think it's a pretty common story with a lot of my comments. Georgia banks entered the pandemic really from a position of strength and the good news is we still see a very strong industry here today.

Loan quality continues to show an improving trend by every performance measure out there, whether it be the allowance for loan losses, past dues, non-accruals, charge-offs, all these figures are drifting down across the portfolio.

Earnings levels are still slightly lower than they were pre-pandemic, driven obviously by the decline of the net interest margin, again a common theme there, largely explained by the influx of low-rate PPP loans, but also more troubling is the scarcity of traditional loans at a higher rate that I think has most of the bankers concerned with -- that I wound up speaking with.

Of course, liquidity is abundant, I think that's a common theme. It’s diluting capital levels some, but not typically to a point where we're concerned.

Again, from speaking with my bankers, I think most are in kind of a frozen position where they're reluctant to invest long-term for a very small yield gain for fear

that rates will rise on them.

Another problem is that spread is so thin that they're really may not be enough there to even use hedging as an option. It washes out completely. So, I certainly have earnings concerns today and those continue for me on the horizon.

But, from a statistical standpoint, the vast majority of Georgia state-chartered banks are well rated and with an improving trend. So, there's only a handful of institutions that might need some additional attention. Merger activity is something that's always top of mind here. The last several years we've been experiencing anywhere from 6 to 12 mergers in a given year. So, I was a little surprised in preparing for today's presentation that we only had two this year, thus far. That said, there's been several more announcements out there and I know I've been privy to several more discussions, so I expect that number to rise, either through the end of this year, or more likely into the end of next year.

I think there was a number of reasons for the mergers, but investors needing liquidity event seems to be the most common theme. Folks are a lot older now, after coming through the great recession and through the

pandemic, both physically and calendar-wise.

But, pooling resources to improve technologies is another major theme there that is commonly cited for the merger activity. But, I really think regulatory burden is certainly a driver in there.

In the eight years that I've been Commissioner here in Georgia, we've had housekeeping bills passed each year with the idea of modernizing the Georgia code and really trying to streamline things and improve efficiencies, both from my department as well as the industries that we regulate.

So, I know what I am about to mention are not FDIC issues per se, but at the recent banking conference I attended, I got an earful about IRS reporting requirements for $600-plus transactions. And, of course, the CFPB's proposed a notice of rulemaking on the small business loan reporting. And, I appreciate that the Dodd Frank Act requires the CFPB to do this and a lot of these things are driven by Congress, but my concern here is the layering of regulatory burden is just simply overwhelming for our community banks; and it's really driving them away.

I know it's not a new topic, but one thing I just want to make sure we kept it top of mind. If rules and

regulations were being developed, we need to find a way to carve out our community banks; and I really appreciate what the FDIC's doing in the fintech space in terms of looking for solutions that alleviate these burdens and automate these tools. I think that's incredibly important work given what I just went on about.

Shifting gears a little bit on a more positive note, we are currently investigating a de novo application. We have four de novo banks in the state already, so we would love to have a fifth, if that works out. But, on a little twist to that, we have had three banks go through changes in control and where significant additional capital was brought in as well. So, while they're not de novo banks, I do think that's a pretty positive development and puts a shot in the arm and some strength to our banking portfolio.

Just touching on the exam program a little bit, on average, about 10 percent of our exams have been done with some portion on-site. That said, our state is divided into four geographic districts, so the results for our bankers vary considerably because we've allowed our district directors to experiment a little bit here.

Some areas have been a lot more on-site and others

have been completely remote, for example. But, key takeaways so far, we've been getting really positive feedback from our banker regardless so far. So, when it's fully remote, I think one of the common things I'm hearing is that regular daily check-ins between examiners and management has been very helpful. As well as some kind of mechanism where questions and answers are being funneled both on the exam side and on the banking side, I think just to cut down on the constant email chatter and to make sure that things are getting addressed appropriately.

In terms of the on-site piece, we've typically had three to four loan review examiners on-site for a few days, that's what constituted the on-site piece. So, we're far from any kind of definitive hybrid plan at this point, but we just wanted to let you know we are experimenting with that a little bit and staying real flexible with what we do. As I think you've heard from several other commissioners previously, one reason we've been able to be effective in doing an examination process throughout the pandemic is because we hope to have a strong rapport with our bankers and I do worry that prolonged absence from face-time with them will hurt that rapport, especially as

we've added additional staff throughout. So, I do think we're going to have to have some kind of hybrid to keep those relationships fresh and balanced.

That is the conclusion of my report out. I appreciate again the opportunity to be a part of the committee today and I will pass the virtual baton over to Commissioner Charles Vice.

Thank you.

MR. VICE: Thank you and good afternoon. My name is Charles Vice. I'm the Commissioner for the Department of Financial Institutions in Kentucky.

I first want to start out by thanking Chair McWilliams for hosting the meeting today, but also for her personal welcome to this Advisory Committee. Also, I want to acknowledge Board Member Gruenberg and Acting Comptroller Hsu. And, I just want to thank the FDIC as well for the invitation to serve on this advisory committee and for establishing a forum for us to exchange ideas and discuss risks to the industry.

I would like to go back and address one point that the Chairman (audio interference) innovation conference that we have coming up here in Kentucky in the near future. So, Kentucky overall --

MS. ROY: We may have lost Commissioner Vice. Commissioner Gallagher, would you mind stepping in?

MS. GALLAGHER: Hi Lisa, can you hear me?

MS. ROY: I can, thank you. I appreciate you doing this.

MS. GALLAGHER: No problem. Good morning, Chair McWilliams, and other members of this committee. Mary Gallagher here from the Massachusetts Division of Banks. I greatly appreciate the opportunity to be part of this committee. It's always interesting to hear that despite our varied geography, many themes are common. So, I don't want to necessarily repeat what everybody else has said, but I certainly concur with others that there is great value in information sharing and collaboration.

I'll take a moment here to provide an update on the banking conditions in Massachusetts. The pandemic has certainly necessitated and accelerated changes to consumer behavior, with mobile technology and wider adoption of online commerce, including in the areas of traditional banking, financial products and services.

Massachusetts is a small state geographically, but we continue to enjoy an abundance of consumer choice when it comes to banking services. Our agency oversees 150

depository institutions, two-thirds of which hold bank charters. Although the pandemic has curved the double-digit annual consolidation trend for our depositories, M&A activity does continue.

And, like Commissioner Hagler from Georgia, I think we saw a dial-back, but it certainly is continuing; and I think we'll resume as we emerge from the pandemic. This consolidation occurs at a time when our non-depository licensing growth continues at a significant pace.

Over the past few years, our agency has observed growth in the number of non-depository licensees, 30-plus percent growth in the area of money transmission and mortgage companies. Nearly 50 percent growth in the number of loan servicers and double the number of small loan companies. Optionality for financial services abounds in Massachusetts.

As many have observed over the past 18 months, community banks across the country have served a critical role in supporting consumers, small businesses, and more broadly our local economies.

I am pleased to report that the Massachusetts banking industry remains robust and quite strong. The overwhelming majority of our banks enjoys strong CAMELS

component ratings; and I can count on just a few fingers the number of informal actions in place.

Asset quality continues to hold up, but no surprise, concerns remain for those institutions with significant exposure to the pandemic's hardest-hit sectors, including hospitality, restaurants, hotels, et cetera.

Earnings have shown modest improvements buoyed by the non-recurring factor of negative loan loss provisions; however, as we all know, margins remain tight and squeezed to the point of national record lows.

While Massachusetts banks have enjoyed steady deposit growth, as heard by other states, the concern here is for stagnant loan growth. Liquidity has remained abundant throughout the pandemic, while inflated balance sheets have spurred contracted capital ratios, the latter at least holding up for the time being.

On the CRA side, our banks range from satisfactory to outstanding and, notably, not a single Massachusetts bank holds a needs to improve rating.

Overall, we view our banks' management teams as having performed remarkably well across the board in identifying risks, protecting employees and consumers, supporting small businesses and local economies, and

broadly navigating the pandemic.

One trend that we are keeping an eye on, although surely not unique to Massachusetts, we continue to see significant branch closures. In some cases, temporary pandemic-related closures of branches in either a high school or at a supermarket have become permanent.

The closure application site reduced foot traffic, branch profitability, consolidation, and the movement towards digital and mobile banking, as dozens of branch closures have occurred here in Massachusetts.

While each branch closure is reviewed for business and strategic reasons, we are mindful of how so many branch closures across the industry may impact consumer access, most particularly for those consumers who have yet to embrace remote banking options. We will watch this trend closely.

To reiterate, the banking conditions in Massachusetts are healthy, and our institutions have shown strength and resilience throughout the course of the pandemic. We recognize that COVID isn't quite done with us yet and like our supervised entities, we have no intention of letting our guard down as we navigate the evolving regulatory landscape and future of examinations over the

coming months.

We continue to enjoy great communication with the FDIC's New York Region, Frank Hughes, as Tony Salazar mentioned, and look forward to partnering with you as we contemplate post-pandemic supervision.

Now, we'll turn things I guess back to Charles Vice if his technical difficulties have resolved.

MS. ROY: Yes, we'll try Commissioner Vice again.

MR. VICE: Can you hear me now?

MS. ROY: We can.

MR. VICE: Okay. I am so sorry about that. I've been having a little -- some technical difficulties today. So, I really do apologize for that. But, I want to go back and just start over because I don't know where I cut out.

Again, my name is Charles Vice. Good afternoon. I'm the Commissioner for the Department of Financial Institutions in Kentucky. I want to start by thanking Chair McWilliams for her welcome to me to this advisory committee. I also want to acknowledge Board Member Gruenberg and Acting Comptroller Hsu. Also, just want to thank the FDIC for the invitation to serve on this advisory committee and for establishing this forum for us to

exchange ideas and to discuss risk that we are seeing in the industry.

I also want to go back and address one of the comments that Chair McWilliams said earlier in the meeting, and that is relative to in-person meetings, and just offer that Kentucky is a perfect location for an in-person meeting when they resume in the future.

I'll touch on three specific topics today: that's economic conditions in Kentucky, some banking trends within the state, and I'm going to mention the Banking Innovation Conference that will be hosted within the state in the near future.

From an overall perspective, Kentucky’s economy is doing very well. Kentucky GDP grows -- GDP rose by 6.5 percent in the second quarter of 2021. And, our unemployment rate continues to decline. It hit a peak of 16.7 percent in April of 2020, and has steadily declined and now, as of August 2021, it is 3.7 percent. For the majority of this year, it has been very stable or declining each month; and right now it is at a low of 3.7 percent.

One of the things that I wanted to do, too -- usually when I introduce myself to individuals that I'm the Commissioner from Kentucky, the first comment I get in

response is, well, I've never been to Kentucky before. And, a lot of people don't know a whole bunch about the state. Obviously, our two famous industries, bourbon and horse racing, are very well known. Both these industries are extremely important to the state, and they have a positive impact on the hospitality industry of Kentucky and generate a lot of economic revenue for the state and economic activity.

However, Kentucky is a manufacturing state. And, in fact, just yesterday Governor Beshear designated October as manufacturing month in Kentucky. From an economic perspective, manufacturing generates $37.5 billion of the State's GDP. And, since 2020, since last year, we have had 200 new locations established in Kentucky, which created 13,500 full-time jobs in manufacturing, and $10 billion in new investment.

As a subset to manufacturing, Kentucky is also a large producer of auto lines -- I'm sorry, automobiles. In 2019, Kentucky auto exports equaled $4.8 billion. Auto production ranges from cars, to light trucks, to SUVs. And, that happens in the Toyota Lexus plant in Georgetown, Kentucky, at the Ford plant in Louisville, and, if you own a Corvette, that was made and come out of Bowling Green,

Kentucky. So, we have those three large manufacturers. In total, auto manufacturing and subsidiary industries or feeder industries represent 520 companies in Kentucky that employ over 100,000 people.

This industry is also leading into the future. Ford just announced this week that they are going to establish a new $5.8 billion battery factory, which will be completed in 2025, in Kentucky; and also, Toyota announced that they are going to assemble fuel cell modules in Kentucky starting in 2023.

So, a couple things that are impacting industry or economic activity in Kentucky as well is the housing market. Now, we've heard a little bit of a presentation relative to that. Kentucky housing market is extremely strong and evidence of that is last year our home prices increased 10 percent. And, just so far year-to-date this year, they have increased another 12.5 percent.

So, a very strong increase in home prices and a lot of that is just a factor of supply and demand. We don't have a lot of new supply coming onto the market, but we have really strong demand for it. Mortgage originations, both in the way of refinances and new purchases have been extremely strong and that's driving up the home prices

here in the state.

One of the things, though, that's a little bit of a detracting factor is office space. As we've talked about here, we think that that's just a structural change in the economy, the way people are going to interact, the way they work. Telework is becoming a prevalent mode of conducting business these days. And so, just looking at a small subset of the economy, looking at the Louisville office space can give you some indication of what's going on. Year-to-date 2021, net absorption of office space in Louisville alone has been negative 242,000 square feet. Vacancy rates in Louisville right now stand at 15.5 percent, and another indicator of a soft market is the asking rent price is $20.23 a square foot, and yet, the overall rents that have been recently signed are about $18.18 a square foot, so about a 10 percent reduction from asking to actual rent.

Switching to banking conditions, Kentucky is experiencing something very similar to the rest of the banks throughout the country. A significant in-flow of deposits. We've seen surges at both from March to June of 2020, but then also some significant surges as well at year-end, which has led to some excess liquidity and also

some declines in capital ratios. Now, we're trying to take that into consideration when we do examinations.

From an industry perspective, we are dealing with M&A, mergers and acquisitions. When I became commissioner in August of 2008, we had 156 state-chartered banks. Right now, we're down to 107. Total assets, as of the second quarter of 2021, equal $64 billion. And, that represents last year a growth rate in total assets of about 15 percent. And, this year there's been a growth rate of about 7 percent.

However, on the other side of the balance sheet, the loan portfolio that's been reported here, definitely some struggles with growth, very modest growth in the loan portfolio last year, and we've actually seen the loan portfolio as an industry decline for the first two quarters of 2021. So, again, some challenges with matching loan growth with asset growth.

From a financial performance perspective, our industry is doing quite well compared to the states around us and nationwide. The state-chartered banks of Kentucky had a net interest margin of 3.38.

And, I was listening to a bank panel not too long ago at a conference, and the bank panel consisted only of

Kentucky bankers. And, for the most part they categorized themselves as living on margin. That is their biggest piece of revenue, with a sustained low rate environment and all this additional liquidity, with very limited ability to reinvest that in a meaningful way. I do foresee some margin compression to continue in the future. However, our net interest margin of 3.38, is the number one compared to the states around us.

Return on average assets, again, is strong at 1.38. And, our capital ratios are typically, when compared to the states around us, either number one or number two. And, our leverage capital ratio right now is 10.43 percent so, again, very strong.

And, I will conclude my comments today with mentioning the Bank Innovation Conference that is being hosted by the Eastern Kentucky University and the Kentucky Bankers Association that's going to occur on October 14th, 2021, in Richmond, Kentucky.

And, I do want to express my sincere appreciation for the FDIC Chief Innovation Officer Meghji for joining that conference and being a panel presenter and looking forward to his comments, both today and during that conference next week.

So, with that, I will turn it over to I believe Bret Afdahl is next on the list. And, thank you very much.

MR. AFDAHL: Thank you, Charles. And, thank you, Chair McWilliams, and Directors Gruenberg and Hsu, FDIC staff, and all my state counterparts.

I'll start with an overview of banking conditions in South Dakota. We currently have 42 state-chartered banks. But, there was recently an announcement that our largest state-chartered bank is going to be acquired. So, that's a significant hit to us. They represent just a little bit under 40 percent of our total assets.

Over the past six quarters we're seeing the same thing all of the other states are: a 23 percent increase in deposits. But, at the same time, when we take out PPP loans, our loan growth was negative 3.2 percent. So, that leaves us at a median loans to assets of just under 55 percent, so down over 10 percent from a year ago. And, our liquid assets to total assets are over 28 percent, which is a 20-year high.

And, as has been mentioned by others, our capital ratios have been impacted. Our leverage ratio on the median is right at 10.25 percent, which is down from 11.62 percent a year ago; so pretty significant impact there.

And, our margins, seeing the same compression others are. We're at 3.67 percent, including PPP income. And, even including that one-time income, that's the lowest our margin has been in the median for at least 20 years.

And, when we look at, you know, why we're seeing that. Our Ag loan, yield on agricultural loans is just over 5 percent. When you compare that back to the 2006-2007 time-frame, they were in the 8 to 9 percent range. So, a significant change.

And, then our investment yields on the median are 1.64 percent, so significantly lower than 4.5 percent back in that '06-'07 time frame.

Asset quality is stable at the present. You know, commodity prices are strong. But, as my good friend from North Dakota mentioned, we're also in a pretty significant drought that has gone on most of the year. There's been some relief recently, but most likely too late to help most producers. We have extreme drought in 11 percent of the state, and severe in 58 percent, and there's only 7 percent of the state that has no, no level of drought. So, we're feeling that impact across the state.

And, as Lise indicated, primarily, the most severe impact is on cattle producers because we were so dry this

spring there was just no growth of grass in pastures so, some operators had to start making decisions to sell down far earlier than they'd like to do.

Then from a state condition standpoint, our unemployment rate at the end of July was 2.7 percent. You know, compare that to August of 2020, it was at 4.8 percent; and August of 2019, so pre-pandemic, it was at 3.3 percent. So, we're facing some of those same labor challenges that other states are, even though our labor force participation rate is quite a bit above the national average at almost 69 percent.

Housing is also a challenge. We had a lot of people move into the state over the past year-and-a-half. Seen significant increase in housing prices and apartment occupancy rates are really high in the Sioux Falls metro, which is our largest community. Apartment occupancies were over 97 percent; and the HUD housing is over 99.5 percent occupied. And, the Rapid City market, which is our second largest, I won't call it a metro, but community, is at 97 percent as well. So, very tight housing market, especially for – it’s a limiting factor trying to bring new residents into the state to fill some of those open positions and they need that starter housing, and we're

really struggling in that area.

You know, the Moody's CNN study, they peg South Dakota as having recovered from the coronavirus-induced downturn at 113 percent, and that's compared to the U.S. economy as a whole at 92 percent. So, doing pretty well economically.

State revenue, the fiscal year-end 2021, our state ended with an $80 million surplus, but as with everywhere else, a lot of that was CARES Act money and other stimulus funds that were distributed down to the state level.

And, then our job postings currently are double what those listed as unemployed in the state. So, we definitely have a mismatch in not only the number of people we need to fill open positions, but it seems like one of the big driving factors is there's a skill mismatch between those unemployed and the more and more highly skilled positions that are available. So, that's something I know our state is working on through the Department of Labor and economic development offices to try to close that gap.

But, all in all, conditions are pretty good. You know, with the exception of the one large merger that's been announced, that activity has been fairly quiet. As others have indicated, we merged out three banks in the

last year-and-a-half. But, I expect we'll see more just based on the demographics of our bankers in the state and the demographics of our state. Some of our small communities keep getting small. But, the ones that are here are in good condition and ready to lend. It’s just there hasn't been a lot of loans made.

So, that's the report out from South Dakota. And, I will turn it over to my good friend Charles Cooper.

MR. COOPER: Thank you, Bret.

I'd also like to extend my thanks to Chairman McWilliams for hosting the conference. And, I really appreciate Directors Gruenberg and Hsu for participating, and also thanks to the FDIC staff for setting this up.

You know, collaboration is always important, but I believe it's particularly important now. So, for Texas, we have 216 banks under supervision, with total assets that are now over $400 billion.

Asset quality continues to hold up. Our problem bank list, we also include banks rated three on that list. It remains at a record low.

The average leverage ratio at June 30th is roughly 10 percent, which is above the national average.

All of our exams up to June of this month have been

off-site. But, in June, I gave our regional managers the authority to use their own discretion to do on-site bank activity depending on the situation in their particular area, and certainly after consultation with the banks. So, since then, we have conducted, I’m going to say six banks somewhat in the old fashioned method of doing it. But, all others have been on a hybrid basis. But, they also they have the authority to do board meetings, exit meetings, et cetera. And, we're trying to do most of those in-person, again, if possible. Following this kind of trial, I don't know if it's going to be continuous. And, we're evaluating every week.

We did send a survey out to our banks and asked what their preference was. And, 14 percent said they wanted it to be on-site and 23 percent said off-site; 55 percent said hybrid; and roughly 8 percent said that they didn't care, whatever we wanted to do.

On the asset quality side, commercial real estate seems to be holding up. But, we're obviously watching the various sectors.

The energy sector, oil and gas prices are at a record high, probably the highest since 1987. That has not translated -- well, let me back up. The companies that

operate in this area, service companies and things like that, they're doing very well. But this increase in pricing has not translated into increased profit. And, the primary reason for that is they cannot find the workers at the lower end of the spectrum. But, they do expect the fourth quarter to be much higher than the third quarter.

I'd like to follow up on what I think is a very appropriate comment by Commissioner Kruse. History indicates that when we're in a very low net interest margin that there is a corresponding search for yield, some people call it reach for yield and this results historically in lowering credit standards.

So, obviously, we are continuing to be on guard for that. But, generally speaking, I'll say for the asset condition of our banks that I’m cautiously optimistic. And, recently I participated in three Texas bank CEO roundtables that was hosted by Regional Director Kristie Elmquist.

So, this is roughly, say, roughly 36 bankers from across the country, all CEOs. But to a person, the number one concern that they have right now -- this was about a month ago -- was the COVID threat and the threat to, health threat to their staff, the health threat to their

customers, but the economic threat that it could cause to the customers' businesses. So, I found that to be very interesting because of the cycle that we all thought we were in.

The number two threat, which I always felt was the number one threat by these bankers, was cybersecurity. So, cybersecurity is something we certainly need to look at.

And, I would like to mention, in June of this year, we issued what we call an industry notice. And, this particular notice affirms the right or the ability of Texas state-chartered banks that they have the statutory ability to provide customers with virtual currency custody services.

And, also in the industry notice it indicates that while you have the statutory right to do this, that you certainly need to have the right protocols in place to effectively manage the risk and to comply with applicable law.

And, I will say that since we issued this notice we have received a lot of requests from the media and industry. It's received a lot of attention.

So, that's all from Texas. I'd like to now pass it

to Commissioner Hall from the great state of Montana.

MS. HALL: Good afternoon, everyone, except friends that are further west than I am, then good morning.

Thank you so much for convening us, Chair McWilliams. I think this is an important opportunity for all of us to share, both with our federal colleagues, but with each other, the conditions and the situation that our states are currently struggling with or succeeding in.

I'll start just briefly with the COVID pandemic. The division has been back in the office for a month. Governor Gianforte has returned all state workers to their offices. There will be a space study in order to determine who can telework and who cannot. But, right now, most state employees are back in the office. And, we have been working with our banks to be back in a hybrid situation over the past month-and-a-half, two months.

We first went on-site, I believe, at the beginning of August, and are continuing to sort of do a hybrid model right now. And that has, you know, honestly, we were in that position prior to the pandemic, moving towards a more off-site model, because I think it is important in order to make sure that we are using the technology tools that are available in order to do our jobs in the best way that

we can.

The most significant issues in the Montana economy right now are significant labor shortages, as you've heard from most everyone. I've been reading a lot lately about the kind of coined term the "sansdemic," without people, and I have a feeling that these issues are going to be here with us for quite a while.

And, that labor shortage both impacts the economy as a whole, but also our banks and the division. We are attempting to hire people and are struggling with that. In addition, our banks are attempting to hire people and struggling with that, and it has led to more temporary branch closures with, you know, combining the labor shortages with, you know, people being out with COVID issues, more branch closures than we've ever had.

And so, we've actually worked over the past week with the governor to do a proclamation that allows branches to close more easily in order to keep everyone safe and as long as banks are able to provide their traditional banking services.

Additionally, Montana, you know, as everyone else is teleworking, everyone is trying to figure out a way to telework from Montana. Housing prices in the state have

increased over 25 percent year-over-year. It seems that we are going to have a kind of a -- I think it's going to exacerbate the labor shortage. Because although people want to move here, they are moving here, but continuing to work in their jobs somewhere else. But, they need to be housed here and those jobs in other places may pay more. It's driving up housing prices, and housing supply is unable to keep up with the demand for housing right now. So, that is also, hopefully, will ultimately lead to some wage increases, but at this point in time it's really just leading to labor shortages. So, we'll see how that plays out over the next few months.

Additionally, I wanted to mention that Montana banks' merger activity is kind of beginning again. There was a real pause during COVID as we waited as I think our banks who typically participate in that activity, in acquisition activity, took a pause waiting to see how things are going to play out. However, at this point in time, merger activity is picking back up.

Additionally, assets at banks, credit unions, all of our depositories, are incredibly high, which has driven down capital levels. This is less concerning at banks, but a little more concerning at credit unions that have reduced

ability to increase capital in the short-run.

I also want to join Ed Leary in thanking Kathy Moe and the San Francisco Region of the FDIC for the work that they did in kind of bringing all of the states together during the pandemic, and setting up monthly calls, and making sure that we were all continuing to communicate and working together. It really was a successful, I think, 18 months that we've been dealing with this thanks to, thanks to her leadership. So, thanks to Kathy.

And, I think that brings Montana to a close.

And, I, actually, I was supposed to turn it over to Tom Fite. But, I think Tom wasn't able to make it today. So, I will be turning it over to Greg Gonzales from Tennessee.

MR. GONZALES: Thank you, Melanie. And, thank you, Chairman McWilliams, Director Gruenberg, and Acting Comptroller Hsu.

I'm Greg Gonzales from Tennessee. And, the condition of the Tennessee banking system remains very good. We have 116 banks, $200 billion in assets, and while the overall risk profile of some institutions appears to have increased, risk management practices appear generally sound, with satisfactory capital and

earnings performance continuing.

Some CAMELS component ratings have been adjusted both upwards and downwards for certain institutions. But, both component and composite ratings have held relatively steady. And, just as you've heard from others, tier 1 capital ratios have been impacted by significant deposit activity. But, we've not really seen capital rating downgrades around the state. For those banks that have experienced such a decline in tier 1 capital, we've seen a reduced risk profile in these institutions as the increase in deposit funds continues to be held as cash or in the investment portfolio.

Certainly, federal and state economic relief has played an important role in supporting the health of our economy and the banking system. Overall, Tennessee bankers are reporting payment resumptions on previously deferred loans. Generally, no major problems have yet to be identified.

The Tennessee banking system, which is primarily state-chartered, has consolidated considerably in recent years, but has also grown significantly, aided by multiple conversions over the years from federal to state charter. We're very interested in the strategic planning that

institutions have and will be engaging in, especially given the lower rate environment, surplus liquidity, new consumer spending habits, in some areas suppressed loan demand.

And, with regard to commercial real estate, while we do have a small number of banks with non-owner occupied CRE in excess of 300 percent, it appears that the system as a whole is well diversified. Though there may be some banks monitoring hotel loans or loans to restaurants that are still struggling, it does not seem to be a large loan concentration at the majority of banks in industries directly affected by COVID.

In looking at hospitality, travel, tourism sector, which is very important to Tennessee, clearly there has been an impact in the state, although we continue to see positive trends. In East Tennessee, tourism is strong at the Great Smokey Mountains. In 2020, the Great Smokey Mountains National Park had over 12 million visitors and for the first four months of this year, over 3 million had visited the park, which is a 115 percent increase to the same time period of last year.

The Nashville metro area in Middle Tennessee has experienced strong economic growth this year. As housing

prices remain elevated, closing time frames are quicker for real estate transactions.

Several corporate offices and headquarters, such as Amazon, are locating to the Nashville metro area, with the most recent corporate announcement in Tennessee being a nearly $6 billion regional mega site in West Tennessee for Ford Motor Company, which will result in the most advanced and efficient automotive production campus in the company's history, creating nearly 6,000 jobs in the West Tennessee Memphis area.

Annual earnings potential is estimated at over a billion [dollars]. The greater Memphis Chamber has called the project the largest single investment in Tennessee history, with the executive chairman of Ford Motor Company stating “This is the largest single investment in the company's history.”

The Ford investment will transform West Tennessee with ripple effects throughout the state, and should support and provide the Tennessee banking system with opportunities to leverage its economic activity.

Another important development for the state, including our banking system, is Governor Bill Lee's broadband initiative. Broadband accessibility, as you

know, is a key to thriving communities, especially in light of greater reliance on remote access to banking services. I do think the digital divide between those citizens with broadband access and those without, often in rural areas, has been magnified over the last 18 months - certainly impacts access to banking services. And, our department response is what we've done from an IT regulatory standpoint.

About three years ago, we established a position to lead our regulatory IT operations department-wide. We are further building out a team to enhance our regulatory capabilities in the IT area.

And, with that, thank you again Chairman for bringing this group together. We certainly appreciate the working relationship we have with Regional Director Kristie Elmquist and her staff.

And, I'll turn it over now to John Ryan.

MR. RYAN: Thank you, Commissioner Gonzales. And, again, thank you, Chairman McWilliams, Vice Chairman Gruenberg, and Acting Comptroller Hsu. Really appreciate your attention and interest to the state system of regulation.

I want to focus on a few things that I think connect

all of us. The areas of focus of CSBS that I think are of importance to all of the members of the FDIC Board as well as state regulators.

Coming out of our Community Bank Research Conference, about a week ago, I'm definitely thinking a lot about, and coming into the 10-year anniversary of the launch of that conference, about the structure of our banking industry, our financial services industry, why that matters, why that matters to states.

You, the states, have fought to defend their role in banking and financial regulation, with an appreciation for the consequences of access to credit on local communities and state economies. And, the states have paid a lot of attention to the health of the community bank sector because of a belief and really an understanding of the connection of locally owned institutions to local economic development and the relationship model that they generally use with their customers and what that’s meant to local businesses.

So, CSBS recently at the end of August looked at the Call Report data for the PPP to better understand -- linking of the Call Report data and the PPP data -- to better understand how banks and non-banks contributed to

the program. So, I think this isn't news to any of us, that banks accounted for 90 percent of all PPP dollars lent.

Something that we focused on was “What's the role of the state?” And, we viewed the bank and the non-bank sector as important that states regulate both states and non-banks.

So, state-chartered banks, which make up 78 percent of the charters in the banking system, but just north of 30 percent of the assets of the banking system. And, community banks, as we know, both state and federally chartered, are below 20 percent of the assets of the banking system. So, state-chartered banks provided 51 percent of all PPP funding by dollar volume. While we have, at least coming into the crisis -- I'm not sure that it's changed too much -- about 30 percent of the assets, 51 percent of the dollar volume. State-chartered banks originated 42 percent of total PPP loans by number of loans.

And, I think we heard in the research discussion from Governor Bowman how supplemental and important in supplementing, and maybe for a lot of smaller dollar, small business loans that the non-bank sector was. But, the

banking sector was a big driver and the state system outsized to its percentage of assets may be reflective of the number of institutions we regulate.

So, state-chartered banks also were a prominent force in PPP lending in rural areas. Sixty-five percent of all PPP loans in rural areas came through state-chartered banks. And, state-chartered banks provided 50 percent of all PPP funding by dollar volume to low-to-moderate income areas.

So, I raise this because I think we all are here understanding the financial ecosystem, the chartering ecosystem, the regulatory ecosystem, how those pieces fit together, the diversity of the industry fits together. I was reflecting on, Chairman McWilliams, your comments at the research conference that we're losing about 200 banks a year. And, over 10 years, that could add up to about 1,000 banks. And, our understanding that some of these are market forces, but they may not be market forces. The regulatory burden challenges do come up a lot in our discussion. And, the consequences of that diversity, demonstrated by the data that we've identified coming out of the PPP program, that diversity of a system has real local economic consequences.

So, that's a shared interest of all of ours. And, I think it's important we think of how the pieces fit together in our regulatory system, and within banking, and bank and non-bank, how important this is that, you know, we, we focus on the outcomes, and the outcomes we desire, and what sort of structures get us closer to the outcomes we desire.

Another area of shared interest, and I think will make us an even better partner to both the FDIC, and the Fed, and the OCC, is our focus on data, data analytics, our own innovations where we may be doing some things new and different, or making sure that we're talking the same language with our federal counterparts.

So CSBS has been developing early warning predictive analytics models, model or models, that state regulators can use to detect bank risk and potential failure. We came out with, and I think we shared this with our federal counterparts at a recent large bank conference, our Risk Identification for State-Chartered Institutions, or RISCI tool, which we crowd sourced in the development and continue to crowd source in the refinement of state regulators and examiners.

So, I think this will be really helpful to us.

Talking from shared data, whether it's the Call Report or other data sources, to understand the regulatory actions we need to take and the consequences of the regulatory actions we're taking. I think that's what helps make us good partners.

I also wanted to mention we’ve talked about the condition of banks and a lot of -- when we're talking about the condition of banks, there's a heavy emphasis on community banks. CSBS has done an annual survey of community banks.

We also about a year-and-a-half or so ago started a quarterly Community Bank Sentiment Index. That came out today, and the index is right at 100, so, down from 115. Above 100, positive; below 100, negative. So, we're right there.

We think, and I think listening -- and this is where it's so important that, you know, these conversations and hearing each other and our understanding of what's happening around us, based on survey, a lot of things that you've been hearing in terms of flux deposits, declining loan demand, compressed net interest margins, that we can understand that.

But, we probably haven't quantified, I'm sure we

haven't quantified what Commissioner Cooper raised, in terms of the fear and risk around an ongoing health and national health crisis.

I would be remiss if I didn't mention some of the work that we're doing on cybersecurity, as October is National Cybersecurity Awareness Month. CSBS has issued cybersecurity tools and a media kit for state supervisors to help promote National Cybersecurity Awareness Month with both bank customers, state consumers, and bankers. We really value our partnerships, state partnerships with each other, the federated system. We have our 50 states and federated with our federal counterparts. I think this is going to be critical as we are facing current and future challenges and opportunities around fintech broadly, crypto, distributed ledger technologies. There are challenges to our regulatory system, and there are opportunities.

We share the concern for both the stability of our financial system and the health of our consumers; and we all will be better together addressing these challenges. And, with that, I think I turn it back over to Lisa.

MS. EBERLEY: So, thank you, John. Actually turning it back over to me.

Thank you to everybody for sharing your observations from your states. It was a great discussion. And, the themes that you talk about, the things that I wrote down the most were cybersecurity, number one; the challenges operating in the current economic and interest rate environment and risks that banks may be taking on operating in that environment; the need to be vigilant in keeping an eye on commercial real estate performance; and, finally, and, you know, very importantly, the importance of our collaborative relationships.

So, these are all important issues for us to talk about, areas we're focused on as well. Thank you again for all of your commentary.

And, at this point I'll turn it over to Shayna and Camille to lead our next discussion.

MS. OLESIUK: Great. Thank you very much, Doreen. And, thank you to all of the participants. I really enjoyed hearing all the information and insight shared today; and I always learn something new from these conversations. So, I appreciate being invited.

I'm going to spend a few moments talking about some of the observations from my team in Washington from a national viewpoint. And, then I'll also talk a little bit

about our Risk Review publication from earlier this year. And, the press release and the information about that was included in the materials.

So, in summary, we're continuing to see economic growth and credit conditions improve nationally. Of course, still sensitive to the path of the pandemic. The outlook is positive, but it's certainly faces downside risks from labor market constraints and supply chain constraints, which many of you mentioned today, and we, too, are concerned there.

Key risks for banks, I think, remain the potential credit strains as pandemic support programs for borrowers begin to wind down and loan forbearance periods end, along with the earnings pressures that many of you mentioned.

So, a little more information about the economic conditions.

So, GDP growth has been more than 6 percent in the first and second quarter of this year, clearly very strong numbers. And, as of the September 2021 Blue Chip forecast, the current consensus for full year 2021 growth is at about 5.9 percent. Now, obviously, these are very strong growth numbers, but I think it's important to notice that they have been coming down over the last couple of

months. The GDP forecast just back in June for the full year was 6.7 percent. So, that has come down nearly a full percentage point just in a couple of months, so, reflecting the slowing growth in the economy.

The employment picture is similar, showing slowing growth and although as of August of this year, the economy has regained about three-quarters or just about seventy-five percent of the jobs lost in the early days of the pandemic. Now, while this is positive news, the flipside is there are still about five million fewer jobs now than before the pandemic started. So, we clearly still have continued weakness among some people, and potential financial difficulty when programs such as the extended unemployment and forbearance ends.

And, lastly, we are watching inflation very closely. Inflation certainly remains a concern. The Blue Chip consensus forecast continues to point to a return to inflation levels just above 2 percent by next year. And, the numbers that we're seeing now are still being driven by COVID sensitive sectors. But, we're still certainly watching the inflation numbers as they matter a lot to our outlook.

Now, I'll spend a few minutes talking about some of

the highlights from our 2021 Risk Review, which, as I said, was published earlier this year, since our last meeting of this group. And, a link was shared in the materials for the meeting.

So, in the publication we covered key credit risks in the aftermath of the pandemic in sectors such as commercial real estate, energy, and small business. Commercial real estate was one of our focus areas. Commercial real estate loans held by FDIC-insured institutions reached a record high in 2020. And, community banks hold about 28 percent of these total CRE loans. This is well above their share of the total banking industry assets. So, certainly more exposure to commercial real estate than other sectors.

Now, the good news is, is that commercial real estate asset quality has remained stable. And, is much more favorable than it was during the recessionary period following the previous CRE cycle back in the Great Recession.

So, of course we still await the post-pandemic period after loan accommodations and forbearance ends. But, right now commercial real estate conditions look fairly stable.

Now, there's other sectors that we talk about in the

report, including housing and agriculture where there is notable exposure among commercial risk -- among community banks. But, these sectors actually did very well during 2020. So, the report highlights many of the strengths in housing and agriculture.

Then, finally, as many of you had mentioned, we looked at -- we looked at some of the banking performance. And, as of the second quarter quarterly banking profile, net interest margin reached a record low, as many of you have mentioned. However, loan growth is a bright spot. Total loans actually increased from the first quarter, between first and second quarter. And, this was following three consecutive quarterly declines. So, we see that as continued evidence that banks are staying strong in this environment.

So, I encourage you to read the Risk Review, and let me know if you have any ideas or suggestions for topics in the next issue, which we'll be starting work on soon.

So, I will now turn it over to Camille to discuss supervisory viewpoints.

MS. SCHMIDT: Alright, thank you very much, Shayna. And, hello again, it's good to see all of you again this October.

I'm going to expand on what many of you have talked about, and what Shayna's talked about, from a supervisory perspective.

As far as pandemic-related banking trends across the industry, when we look at institutions with layered risks and those known to have exposure to the industries and economies most affected by the pandemic, like you've all said, excess liquidity and compressed net interest margins are certainly top of mind for these bankers, as they are for all banks I'm thinking.

Banks' earning asset mix has certainly shifted to lower-yielding assets. Cash and due from balances have doubled in the last two years. But, in the second quarter we did see that deposit growth and we saw it slow, likely due to the pandemic support programs that are expiring, and the second quarter deposit growth was more in line with pre-pandemic levels.

We saw loan growth, as reported in the QBP, and bankers are reportedly optimistic about loan growth emerging as the economy recovers, although their timeframes for this continues to lengthen.

At institutions with layered risk and the loan exposure to industries affected by the pandemic, their

overall risk profiles are decreasing. We're seeing decreases in accommodated loan volumes, they're certainly continuing. And, by and large, the pandemic has really only weakened a small number of lending relationships per institution.

Accommodated loans have often moved to watch lists or special mention, but there has been limited migration to adverse classification. And, concerns and migration are usually centered around industries well known to be affected by the pandemic, like hospitality, or office, or taxi medallions.

Like everyone said, staffing concerns are showing up in, you know, the surveys and programs that we look at. It's a prominent theme now. And, it's really a double-edged sword for banks because they're also concerned that many of their business loan customers are struggling to hire or maintain sufficient staff. So, this labor shortage is affecting their loan portfolios, too, and that's a concern for them.

I want to talk a little bit about commercial real estate. As Shayna mentioned, a quarter of all institutions have CRE concentrations and most of those are supervised by the FDIC. CRE supervisory recommendations

remain the same as they have for the past year. The areas most frequently reported as in need of improvement center around board and management oversight, portfolio sensitivity analysis, and portfolio management.

For the first half of 2020, supervisory recommendations concerning credit underwriting, management information systems, and market analysis increased compared to the last half of 2020. However, those levels all remain manageable.

Most CRE concentrated institutions have stable lending risk profiles. Among the banks with increasing risk profiles, managing growth is the main theme.

I want to briefly talk about LIBOR transition readiness. I'm not sure if anyone has talked about that. But, first, I would like to thank the CSBS and the state supervisors for their support during the LIBOR transition. Many of the states have provided us with their LIBOR exam assessment results and helped us complete our work programs.

Collectively, we have reviewed about half of the FDIC-supervised community banks. And, only a small percentage, just around 15 percent, have meaningful LIBOR exposure. Those that do, tend to be the larger

institutions and those with high levels of derivative contracts.

Generally, these institutions are followers, and they're just waiting to see what their peers and the larger market leading firms settle on for replacement rates, particularly for loans. We have found that a number of community institutions have selected Prime as a temporary alternative to LIBOR. But, eventually, many of them have indicated that they intend to move to Term SOFR.

As a result, FDIC examiners have found that institutions have made progress, but still have more work to do towards selecting appropriate replacement rates and developing effective communication strategies. There is also further work needed to ensure that all contracts maturing before the June 30, 2023 extension include appropriate fallback language.

And, I'll close by just a brief summary of what we're seeing at agriculture institutions. The current theme from our agriculture bank examiners is optimism. 2020 yields were average to above average. But, like, for our supervisors from I think the state of North Dakota and South Dakota mentioned that extreme drought crop conditions do vary across the state depending on those

weather conditions. As of mid-September, 58 percent of the corn and 57 percent of soybeans were rated good to excellent.

The corn and soybean harvest is, on average, about one-third complete as of this past Sunday. So, we will really see how, what the final yields are in a month or so.

You know, the producer balance sheets, producers ended 2020 with pretty good balance sheets, really their scorecards really looked good. And, our examiners really think that many of these producers are poised to even be more profitable in 2021.

Livestock producers generally broke even. But, they are expected to be modestly profitable in the last half of 2021.

Other good news is that real estate values are reported as rising significantly in some states. We're seeing increases between 12 to 14 percent reported in states like Kansas, Nebraska, and Indiana.

Producer sentiment is strong. I think the risk in Ag right now is higher input costs, caused by price inflation and the supply chain issues that you've talked about. Input costs like fuel and oil expense, fertilizer,

machinery and equipment, and labor costs are expected to increase more than in previous years.

So, with that, I will wrap up and turn it back over to Doreen Eberley.

MS. EBERLEY: Okay, thank you so much, Shayna and Camille, for the great report outs. We appreciate it. We are a little bit past time, but let's go ahead and take a 15-minute break. And, we will come back at 3:05. Thank you so much.

(Whereupon, the above-entitled matter went off the record at 2:50 p.m. and resumed at 3:05 p.m.)

MS. EBERLEY: Thank you everybody and welcome back. This afternoon, we have FDIC Chief Innovation Officer Sultan Meghji with us. Sultan is going to share an update on our FDIC's Office of Innovation, which we call FDITECH. Sultan.

MR. MEGHJI: Thank you so much, Doreen. And, first off, it is so great to have been sitting here in the background watching the presentations so far. This is such an awesome group of people, and it's great to see a few familiar faces giving the updates.

With that, I would just like to say it's an honor to be back here speaking to all of you. It's been a little

bit, and we have a little bit to talk about here. But, first if we go to the next slide, I'll do a little bit of an update.

So we're past six months after I've joined. We've got some staff now. In fact, you're going to hear from one staff member who's been spending some time with us in just a little bit here. I'm excited to see that. The program today is just wonderful.

But, I'd like to remind all of you what I've mentioned before, which is the four key pillars we're using here at FDIC to organize our thoughts around innovation. The first is around inclusion. How do we create the most inclusive, equitable, and diverse banking system out there, not just for consumers, but also for small businesses, especially women- and minority-owned businesses, which make up such a big piece of economic development here in the United States.

The second one is around resilience. And, if you haven't listened to the FDIC podcast, I'd highly recommend it. And, I'll show a little bit for one of the more recent podcasts where I took over and I interviewed former Homeland Security Secretary Michael Chertoff, where we talked exclusively about resilience and talked about

everything from how you could use the metaphor of the human immune system or boxing to discuss this. It was a great discussion and one that really focuses on the fact that resilience has been and will continue to be a critical component of the safety and soundness of our banking system. And, whether we're talking about cyber actors and ransomware or we're talking about backhoes cutting off a bank's connection to the internet by cutting through a fiber optic cable, these are big, important conversations.

The third is around amplification, and it's one of the greatest things I think of the banking industry here in the United States is that there's so many experts. I think we're incredibly fortunate to have so many of them on a program like today. But, also we have this amazing group of people at FDIC and the banking system and those organizations that support them.

And, when I see experts, I really want them to be as efficient as possible. I want them spending as much of their time being the experts that they are and not having to fight things. So, amplification is about getting the maximum amount of people and removing the friction in their daily lives.

Then finally, protecting the future. I think the

last time I was here, I made an off the cuff comment about how Elon Musk might try to put a bank on Mars. Well, since I've spoken to you previously, we now have banking infrastructure in orbit. So clearly, these things are moving quickly and there are a lot of other activities. Just yesterday, the Department of Homeland Security announced an entire discussion around quantum computing and what it means as it relates to cybersecurity. And, obviously, we're also talking about things like artificial intelligence.

There is a tremendous amount of activity going on in this space. But, the one through-line is around data, and we call it the new capital. Whether it's examiners looking at data at institutions, whether it's looking horizontally at risk across the system, whether it's a consumer looking at their own credit file, data is the underpinning of all of this. It's the lifeblood.

And so, a lot of the things that we're looking right now that we'll talk about more in the future are around data. But, that's the through-line through all of these discussions. So, with that, let me talk about some of the things that have been going on since I spoke to you last if you go to the next slide.

And, first is an update on Rapid Phased Prototyping. So, as a refresher, last summer, we put out a call for concept papers and about 30 organizations came back and gave us some ideas about what they were thinking about in terms of what we could do in the market and at FDIC to remove friction from the examination and supervision processes, especially as it related to data.

And, we went through the summer into the fall. We went from concept papers to initial prototypes right before Christmas. And, the list of entities shrank down. I think it ended up being 11 at that point. And, then we asked those 11 to do a final demonstration in the spring. And, we got a bunch of really great demonstrations and views from those institutions about what they thought they could do.

On the back end of that, we spent a little bit of time reviewing them and then circling up with others, including some of the people here. And, a few weeks ago, a month ago -- kind of lost track, time flies here in D.C. -- we've called for pilot programs. These would be one-year potentially programs where these very small group of organizations could come in and basically run their project in partnership with us to take it to that next

step, to look at what it really looks like in market with real data and really sitting with it shoulder to shoulder. We are still collecting some of those pilot proposals. And so I look forward to having discussions like that in the future. But, expect to hear more about this, especially next year, as these pilot programs go on.

This has been an incredible evolution for us as an organization in terms of not just being able to acquire new technology in more streamlined ways, but also operating with a more integrated view and more transparency in terms of how we do these things. I'm incredibly excited for the value that can get created out of the Rapid Phased Prototyping program and can't wait to talk to you all about that here in the future. So here, let's jump onto the next slide, and we'll talk about our sprint program.

So, one of the things I did before I joined, and right after I joined was I went on a bit of a listening tour. In fact, I talked to some of the other presenters today, other people listening to this, to try to really understand what's going on out there, what the problems people are having are, and what they see as opportunities. Out of that listening program, we created an office hours

program.

We specifically first talked about artificial intelligence. But, there are a couple of other areas we've been talking to people about. And, I will just say right now that we created an email address, innovation@FDIC.gov, to make ourselves available. So, if you have thoughts, if you have ideas, if this is an area that you care about, please don't hesitate to email us. And, we'll set up some more office hours to talk about things.

But, out of that, we looked at something that's become a fairly normal thing in the tech community. It used to be called hackathons. We're calling them tech sprints for us in the regulatory system.

But, these are short programs, usually just a few weeks, where we ask teams to apply based on a question. And, that question, we spent some time on. And, then we basically collect the applicants, we go through a little bit of a process, and then we work with them through this sprint to take our expertise, our needs, their expertise, their energy, and look at how we can solve specific challenges.

And, it's not just a company coming in and pitching a

product. We look for something new. We look for something unique. And so, in many cases, the sprint teams are actually a combination. Maybe it's a bank and a tech company. Maybe it's a very large tech company and a couple of smaller tech companies.

Then, after those few weeks, we have a demonstration day where we allow them to come in and demonstrate what they've done and the value that creates. It's an incredibly cool way of not just increasing visibility, but also helping people understand what the state of the art is and what the art of the possible could be. So, out of that, we've done two where -- we're doing two so far. And, I'll talk about both of them here. So if we go to the next slide.

I'll talk about our first one which is on inclusion, which was really about reaching the last mile of the unbanked. Now obviously, there are lot of things that have been going on for the last few years and a lot of great activity that's been done. But, technology is changing quickly and ways people operate with technology are also changing.

So, the first tech sprint on inclusion was held from August to the end of September. Eight teams were

participating. And, the question was, “What data, tools, and other resources could help community banks meet the needs of the unbanked in a cost effective manner, and how might the impact of that work be measured?”

And, that last part is really important, and I'll highlight it. In many cases, when people go down more researcher skunk-work style programs, they just kind of do stuff. I'm not a big fan of just doing stuff.

I like to then say, okay, we did something, and what could we measure out of that? What is the result of that? And, could we then extrapolate what the value that we could create from that actually is?

And so, let me talk about a few of the outcomes, and there's going to be more to come on that. We're going to start putting some content out about this here in the future. But, let me talk through a couple of the bullet points that are really worth highlighting.

The first is that we have created a forum that allows some of these entities to refine and focus what they're doing and then be able to launch them and market in just a few months. There are some that were already out there that had to go back to the drawing board. There were some that hadn't gotten their thinking together and now have an

opportunity to do that.

So, that's a really amazing opportunity because it allows us to become more proactive and see what's out there and also make sure it's aimed in the right direction. It's given us tremendous insight into some of the barriers that still exist as well as some of the trends, both historic, current, and emerging, so that we can continue to enhance our thinking about this. We have tremendous resources here at the FDIC, and I think a lot of people don't actually know about them, even if you're in the banking sector.

And so, we're really excited to be able to share some of that, that is out there already. Even this week, I had to point out to someone that you can just download Call Report data. You don't have to go through any special process, which was kind of a fun thing to remind someone of.

We have recordings of all the demos. Those will be made publicly available. And, we're very excited to hear about that. So, when those come out, if you have thoughts or comments on them, we'd love to hear them. So remember that email address, innovation@FDIC.gov.

And then finally, it really helped us understand what

some of the lessons learned was. And, we're growing a new muscle here. We're learning how to do things in a slightly different way.

All of this is very straightforward and it's something that people have done in the tech sector for a long time but not necessarily in a federal regulatory body. And so, we're learning how to do things and learning how to shape them into things that work and are fit for purpose for us. And, it's a great program. We learned a lot out of it.

So, two actions are coming out of this. The first is we're going to be making a bunch of the information out of this sprint public. From the demo recordings, some of it's already out there on social media and through our own press functions. But, then also we're looking at what to do next.

And so, as this stuff becomes available publicly for everyone to look at, we also invite people to give us thoughts about what to do next. And, it can be directly related to what they see out of this tech sprint or maybe it's something completely unrelated. We're very open to that.

So, let's jump on to the tech sprint that's going on

right now on the next page, which is around resilience. From hurricanes to ransomware, we need to measure resilience in this world. So, it started just in the middle of August and it ends here towards the end of this month. In fact, the kickoff was just Monday with the teams.

And, the problem statement for this tech sprint is, "What would be the most helpful set of measures, data, tools, or other capabilities for financial institutions, particularly community banks, to use to determine and to test their operational resilience against disruption?" Now this might not seem very sexy. This might seem kind of boring to a degree.

But, one of the most interesting things about resilience is that subsets of it can be measured. Within IT or within tech, we can measure service level agreements. This is a service being delivered at the level it's supposed to. Is the service only available Monday through Friday, 9:00 to 5:00, or is it available 24x7, 365? That's a measure of a technical function.

But, if you look at resilience, there really isn't an agreed upon common framework for how people measure. And, once we know how to measure it, then we can start to

think about how we can take that measurement and use it to add value. So, really what we're looking for is looking for the teams to come in and help us think through this, but then also make recommendations and see how it applies against existing operating entities in the banking system, especially community banks, which don't always necessarily have the biggest budgets.

We would love to see the following outcomes. First is, we would love to identify opportunities to leverage emerging technologies to mitigate risk. That's huge. Using technology to mitigate these issues is a huge opportunity and one that I hope we can begin to make some forward movement on.

The second is really making sure that we highlight how important this is, especially to the smaller and mid-size financial institutions. If you're one of the top 50 banks in this country, absolutely you're doing this. This is part of your daily life. But, every institution should be thinking about this.

One of the things that I tend to ask banks when I talk to them is, which board member is accountable for resilience for your institution? I find it a really useful question to start with. And, in many cases, it's

great.

It's this person. Here's what we do. Here's how they report on it. It's a very cool conversation. In other cases, it gives people a place to start because that's an important thing. If you're not really aiming at making sure that resilience is discussed about all the way up at the board level, then that's a place to start, something to do.

We also want to promote data and measures that can be used to determine the resilience of institutions relative to a disruption. So, ransomware is a big topic right now. It's something that a lot of people spend a lot of energy on.

We have issues with data centers going offline because of electrical issues. We have hurricanes, tornados, and floods that sometimes disrupt things. There are a lot of these disruptions coming. So, how can people measure themselves and understand what that means?

And, we also very specifically want to lay the foundation here for future tech sprints to foster stronger resilience in banking. And, this is an important one, and it's something that I would highlight for everyone. If we go back in time 30 years, banking was not reliant on

technology. The interconnectedness of the financial system was very analog. It was very kind of day-by-day or week-by-week, not second-by-second like it is now. And, as we continue to move in this environment where everything is real time, everything is at the tip of your fingertips.

I can do anything I want with this little device in my hand. And, because of that, the institutions have to support that. Even if they're not necessarily offering all of those products and services, you might not be offering a variety of different real-time services on a mobile device, but if you're integrating with real time payments networks, you definitely have to be thinking about that. And, what does that mean? And, not just for accidents or weather or something like that, but also in terms of nefarious actors.

This is a whole new landscape of threat that's available, and it's something that we can't spend too time on. So, that's going on right now. I'm incredibly excited to talk about that, and you'll see more about that publicly as we get through October and into November.

So, with that, let's jump to the next slide. So, here it is, my final comment on our email address. Please

don't hesitate to reach out to innovation@FDIC.gov. Keep in touch with us, FDITECH. We're going to have a really cool new website soon. I can't wait for you guys to see that.

But, really do keep engaged in this part of the discussion because as we think about banking regulation, here in the tech lab, we're spending a lot of time thinking about the next five to ten years. And, our view is that these changes are going to accelerate. There's going to be more and more of these things happening.

I, for the life of me, can't imagine us going backwards or slowing down in any way. And, it doesn't matter what kind of technology we're talking about or what actions are going on in the market. There's going to be a lot of activity here.

And, with that, I just want to thank you all for having me. I can't wait to come back and give you some more updates on some of the other activities we have going. But, thank you all so much, and please enjoy the rest of the program.

MS. EBERLEY: Thank you, Sultan. We do have a few minutes if anybody had any questions or comments.

MR. MEGHJI: Yes, thank you, Doreen. I forgot to

mention that.

MS. EBERLEY: Okay. I'm not seeing any hands up, Sultan. So, we'll go ahead and move on, and thank you very much.

MR. MEGHJI: Thank you, Doreen. Have a great day, everyone.

MS. EBERLEY: Thanks. Alright, so we'll move on to our next discussion. Next is going to be a panel discussion on state and federal coordination. And, I'll be joined by Mark Pearce, Director of the Division of Depositor and Consumer Protection; Martin Henning, Deputy Director for Operational Risk in the Division of Risk Management Supervision; and, Lisa Arquette, Associate Director for Anti-Money Laundering and Cyber Fraud, also from the Division of Risk Management Supervision.

So, Mark and I are going to kick us off. And, we're going to talk about what we've learned from this extended period of off-site exam work and what we're thinking exams are going to look like when we return to our new normal after the pandemic. Martin will lead a discussion about cybersecurity, and Lisa is going to provide updates regarding the Bank Secrecy Act and anti-money laundering. And, we are very interested in hearing from all of you as

we elaborate on these issues. So, Lisa, I'm going to count on you. I can't see hands up while I'm talking. So, if there are hands, please let us know as we're going through.

So, we'll kick off with me and Mark. We'll talk about what we've learned from this extended period of off-site exam work and what we think things are going to look like in the new normal. And, I would just start by saying we did talk in prior meetings about how in March of 2020 we all had to rapidly shift to mandatory telework and a virtual work environment due to the pandemic.

For us in Washington and the field offices, regions, we all quickly adapted our existing processes for virtual operations and had to create new processes and capabilities to address emerging needs. A simple one was, how are we going to mail reports and examinations to banks? How are we going to retrieve incoming mail? So, things like that, that we had to work out in pretty quick order. But, we really wanted to focus this discussion on the examination program. And, although we haven't been able to conduct exams and -- or I'm sorry, have been able to conduct exams and other mission critical work virtually, it's not ideal. There are certainly parts of the safety

and soundness and consumer compliance and Community Reinvestment Act examinations that are better suited to on-site, in-person assessments.

Several of you mentioned that in your comments this morning and really talked even about banker preference for onsite presence for part of the time. And, when we are able to resume an on-site presence, we do plan to do that, but again, using a hybrid approach like many of you mentioned this morning or earlier this afternoon. An approach that'll offer some opportunities to conduct a greater degree of activities off-site compared to pre-pandemic, at least on the safety and soundness side, and Mark will talk about the differences between RMS and DCP.

But, we do think we can do more. And, I would just start with a little bit of background. So, pre-pandemic, our safety and soundness exam teams generally started -- it was kind of already hybrid. They started an examination off-site planning the examination and performing preliminary financial analysis.

Then, they generally traveled to the bank as a team, on average, about six to seven examiners for 11 days for the typical financial institution. Then, they generally finalized the examination report off-site and mailed it in

to the regional office. And, over time, we've sought to move more of that time into those two end buckets, the before and after, the off-site work as an examiner retention tool.

I think it was Lise that mentioned this morning that you've really focused on the hybrid approach as a retention tool. We have too. And, we've increased that percentage over time. On the RMS side of the house, we've gone from about 32 percent of our exam hours being off-site in mid-2016, to about 47 percent at year-end 2019.

So, for the future, we're envisioning really an enhanced version of our prior hybrid model. And so, that middle onsite portion will likely be shorter, less than the average 11 days we had pre-pandemic, because we've learned that we can do a lot more off-site than we were pre-pandemic, more than we thought we could for sure. And, we envisioned that not every examination team member will participate in the on-site portion.

And, I believe, again, it was Lise that talked about that in kind of your new hybrid model, so you'll have some examiners on the team that'll work off-site throughout the examination. So, we're in the midst right now of completing a lessons learned study that incorporates

feedback from our own staff.

We surveyed staff at all levels, field offices, regional offices, Washington office, and also the industry. We have a request for information outstanding with comments by October 12th. And, we've asked everybody, what worked well during this period of virtual examinations, and what needs to be improved?

So, it's a little premature to talk about that. It's still in process. But, I can share some key learnings from the last 18 months that we're already considering to make part of our vision of an enhanced hybrid approach in the future and making sure that it's both efficient and effective. One of the biggest challenges -- and again, this was mentioned earlier today -- has been accessing bank records to conduct exam loan review and transaction testing, particularly in banks that don't image loan files. And, until we develop a solution to this challenge, those loan review activities may require a longer onsite presence than for a bank that does image files.

During the pandemic, we've asked institutions to scan documents for us and send them to us. And, sometimes we've learned even with the banks that are imaging, there

are ways that we could enhance our processes. And, we're going to be looking at the security considerations of those options and seeing what else we might be able to do.

A second key lesson is that the videoconferencing solutions and collaboration tools that we've used over the last 18 months have been great in supporting an entirely virtual environment. And, I think I said last time, thank goodness we started piloting those early, well in advance of the pandemic. But, we're thinking now about, what do we need to support a hybrid work environment?

So, what different tools do we need that are going to allow exam team members that don't participate in the on-site portion to continue to work and interact with the on-site team as if they were right there. And, we think that this is really an important part of our apprenticeship model of on-the-job training and necessary for sharing examination information among team members. It's also an important aspect of our joint examinations when we have FDIC examiners collaborating with state examiners. We'll have to figure that out on the broader scale. And, we're all going to have some security protocols to work through. So, this is definitely an area where we're going to be needing to work together as we move forward.

We're going to be using the best practices that we've gathered to provide training for examiners on managing remote teams and hybrid teams to make sure that all team members feel included and engaged in the examination. There's some simple things, and we heard some of this earlier today too.  We're all really on the same track here.

Daily check-ins with bank management, scheduling meetings that if you don't have a lot to discuss, everybody can be let go.  But, you've got a set time every day to check in, talk about what the exam team is finding, what materials they may need, how things are going, and get questions answered.  Using cameras during meetings, so that everybody can see everybody else, and we can mimic the in-person environment as best as possible.  So, we'll be gathering together those for examiner training.

And, we've been delivering all of our classroom training in a virtual environment since March of 2020. And, we're thinking about that too.  We found there's advantages and disadvantages compared to the traditional in-person training we provided pre-pandemic.

The folks that we've surveyed, our students, and instructors for that matter, generally have expressed a

preference for in-person training, particularly when they're learning how to conduct examinations going to the core schools. But, the distance learning gives us really an awful lot of additional opportunities for folks to participate in training that might otherwise not have been able to because of travel, because of cost, because of time constraints associated with in-person learning. So, there's been a tremendous benefit there.

We’ve also benefitted from an expanded pool of available trainer resources and capitalized on expertise nationwide. That helps us reach a broader audience. So, there's that positive as well.

On the flip side again, current training platforms for large groups don't necessarily have all the engagement features we would like, so breakout rooms, polling features, whiteboards, the kind of things that help make it more engaging and interactive. So, going forward, we're anticipating that we'll be offering a blend of in-person and virtual training. We're going to try to optimize both convenience and effectiveness.

But, that's where we're heading with kind of the formal training process. So, these are just a few of the lessons learned we're considering as we develop our plan

for future examinations. And, I will turn it over to Mark and ask him to highlight the differences and similarities from the consumer protection perspective. Mark?

MR. PEARCE: Great, Doreen. I'll give it a second just to make sure. Yeah, there it is. It switched over to me. It's good to be with you all this afternoon or at least virtually with you this afternoon.

Doreen has really covered the waterfront of most of the activities that also apply to the consumer compliance and CRA examinations. But, I do want to just talk about a couple of differences. And, one that Doreen mentioned in her remarks is that on the consumer compliance and CRA examination side, we had, pre-pandemic, conducted more of that activity off-site. So, somewhere around two-thirds of our exam work was off-site in 2020 pre-pandemic. Obviously, when the pandemic hit, we went to 100 percent. But, we sort of came into the pandemic having made some adjustments in our pre-exam planning process to do more of that work in advance of the on-site piece to make sure we understood the bank's business model and operations and profile and identify what the level in risks of consumer harm was in those operations in advance of the on-site work.

Doreen talked about a number of the challenges that we all had, and I don't think there are any that were really unique on the DCP side. I'd just maybe reiterate a couple. One is the pre-exam planning work that we normally do in advance, we actually moved that a little bit further in advance to give bank staff time for scanning, more offsite collaboration and conversations in advance of that, what would be the normal on-site portion, but a little bit longer lead time, in essence.

Then, this came up. Doreen just mentioned it, Kevin mentioned it earlier, those discussions with bank management, the on-site portion having a lot more informal interactions with bank staff and bank management and really hard to replicate that in a virtual off-site world. And so, whether it's scheduling those daily check-ins that Kevin was talking about or just having some preset engagements with bank management, we found that to be pretty helpful and important as part of the consumer compliance and CRA examinations.

Doreen talked a lot about some of the initial lessons learned. We're still sort of working through and talking with our teams about lessons learned. I think on the DCP side, there will be maybe some differences from the hybrid

team model that Doreen talked about, and this is really driven by the fact that on the consumer compliance and CRA exam side, the teams tend to be smaller than the safety and soundness teams.

And so, there's probably less need to have folks onsite, at a bank and working remotely and using that videoconferencing technology during the actual exam process. I'm not saying that's not going to happen. I just think it's probably less of a change than the current or pre-pandemic process.

But, I would also say we're not going to go back to the old, even though we were doing two-thirds off-site in advance of the pandemic. I think we're going to be doing somewhere between that two-thirds number and the 100 percent number that we're on now. And, that's really going to require us to clarify elements that we can conduct off-site and be more concrete about what those things are versus what are the things that we really want to have onsite.

And, it's really both for the purposes of the examination and the quality of the examination. But, it's also based on the feedback that we've gotten from bankers through our post-exam survey responses, feedback from the

Office of the Ombudsman, is that we really get a strong desire from the bankers to have an on-site presence in those interactions that can happen informally and in person really being beneficial, not only for us on the exam side, but for the bankers as well.

Doreen talked about the digital, virtual collaboration. And, I think one of the things we really learned during this process was the importance to continue to refine and improve our understanding of these different tools, and when we can use them, and the security requirements around them, and to really maximize the functionality in that. I think that's going to be an ongoing process. And, then the last thing that I would point out that we really observed during the pandemic so far, and I think probably something that we'll need to focus in on in the future, is the internal resources we have for our examination teams.

We've gotten a lot of feedback that some of the resources that we were able to produce and put online and our intranet and other things were really important because examiners in the past might have turned to another examiner right next to them and said, "hey, do you know where I can find this?" Well, now, they're basically

doing self-service. And so, they need to be able to get to the resources. And, there are tons of resources, and a lot of the challenge is really finding the right one and having it be relevant to what they're doing. And so, the more we can do to make those available and timely and accessible, I think the better we're going to be. As Doreen mentioned, a number of you talked about the hybrid approaches, and really did appreciate hearing from you about the different ways that you're doing your return to bank activities. So, thanks. And, definitely as we move forward, we'll want to continue to stay connected and in touch and really have some lessons learned, not just from what we're doing but what you're doing as well. And, hopefully, that'll help us optimize and reach the best outcome together.

And, with that, I think that's sort of all I had. And, before I turn it over to Martin for the next part of this presentation, I want to stop here and see if any of you have any questions or comments for either me or Doreen on our examination efforts during the pandemic and at least our initial thoughts about where we may be heading in the future.

MS. EBERLEY: Thanks, Mark. While we're waiting for

hands, I might mention I don't think either one of us actually affirmatively said this, that we are still operating off-site and intend to do so through the next phase of our Return to Office Plan, unless there's a need for us to come on-site. We will go if we have to, but generally, we're going to be working off-site. And, I really appreciate the collaboration and coordination with those states that do have some examiners onsite. We're already dealing with some of the challenges that I mentioned where we've got some folks in the bank, some folks outside of the bank and how do we get those two teams talking. So, my thanks to all of you who are already participating in that collaborative endeavor.

MR. PEARCE: So, I'm not seeing any hands, but I'm not a great Webex expert. So if there's anybody that has a question or maybe Lisa, you can help me if you see anything that I don't.

MS. EBERLEY: I don't think there's any hands, Mark. I think we can go ahead.

MR. PEARCE: Great. Alright, well I'll turn it over to Martin Henning. And, Mike, you can go ahead and move to the next slide in the deck.

MR. HENNING: Great. Thank you, Mark and Doreen.

My name is Martin Henning. I'm the Deputy Director for Operational Risk in our Risk Management Supervision Division and happy to be with you here today.

Unhappy to hear about cybersecurity risk out there, but I suspect that that's going to be a continuing theme. I heard Doreen mention probably the top on her list of risks that you all mentioned. And, that was my thought too. We heard it last time. I think I'm hearing it more from you this time.

Bank and service provider work to mitigate cybersecurity risk continues to be near the top of our examination focus. When asked what we can do to help bank management and their boards mitigate cybersecurity risk, a foundational answer we give is great, relevant examination. So, I want to discuss two items with you along those lines.

First, I want to give you an update on a key -- what we consider a key cybersecurity control publication on authentication. Of course, the states worked with us through the FFIEC to put this out. It's a preventative control.

And, then second, talk to you and give you an update on sort of a response-related control if something bad

happens, and that's incident notification. So, on this first slide, we have the FFIEC guide. And, the FFIEC guidance dates back to at least 2001 on authentication controls, how people authenticate to computers.

It was updated in 2005, and then again in 2011 through the FFIEC. And, the FFIEC member agencies published the latest update in August of this year, August 11th as you see there. To set the stage, I want to highlight the importance of authentication controls in today's cyber risk environment, particularly multi-factor authentication.

On August 30th, the Department of Homeland Security, Cybersecurity and Infrastructure Security Agency published an alert, the title of which reads, CISA Adds Single Factor Authentication to List of Bad Practices. On September 22nd, CISA and the FBI published an alert about the increased use of what's called Conti or named Conti Ransomware and more than 400 attacks.

The alert recommends implementing mitigation measures described in the advisory. And, the first measure is requiring multi-factor authentication. On July 4th, CISA and the FBI issued guidance for managed service providers and their customers affected by the Kaseya

vulnerability to enable and enforce multi-factor authentication on every single account that is under the control of the organization and, to the maximum extent possible, enable and enforce multi-factor authentication for customer facing services.

So, that's the stage. We've talked already about the threat of ransomware in particular, a particular type of cybersecurity threat. On this slide, I bolded words that are different in the FFIEC guidance this time around in this update.

The scope of the guidance has importantly expanded. The guidance is no longer customer-centric. It covers a wider range of entities. We certainly don't lose the focus on business and consumer customers. But, you can see employees being highlighted in this version, third parties, people and computers interacting with the banks' computers.

It also takes a stronger stance on the inadequacy of single factor authentication. And, I pulled out a quote for you here. We do believe, I think, that this is leaning forward on the need for multi-factor authentication. Many banks have already implemented strong authentication controls, of course, for these groups of entities. But,

for those that haven't, the bar for demonstrating that the risks of unauthorized access should be a little bit higher after this. And, we're thinking at the FDIC about what additional support we can provide our examiners to make sure our examinations of authentication controls are the best that they can be. Of course, we use the InTREx Program with many states. And, that's where we're focused as we consider this new guidance.

I should end these comments by stating that good authentication controls are not a silver bullet that brings a risk of cyber compromise to zero. But, good authentication is a foundational control that banks and service providers should be improving. And, there are new solutions every day in the marketplace.

So, with that, let's move to the next slide. As I said, the FDIC, OCC, and Federal Reserve published a notice of proposed rulemaking regarding a computer-security incident notification rule in January of this year. And, we have received and read those comments. I wanted to review the themes in the comments, which, of course, are public and just give you a sense for them, not expecting that you would be out there looking at that.

Let me set the stage here again by reminding you of

the proposal and reiterating the reason why we publish this NPR and are thinking about this rule, which was stated in the preamble of the Federal Register notice. The proposal was to establish a requirement that any FDIC supervised bank notify the FDIC when it experiences a computer security incident that disrupts or degrades the bank's ability to carry out material banking operations, disrupts or degrades any of its core business lines, or could pose a threat to the financial stability of the United States. And, of course, there are similar requirements relevant to the other federal regulators.

The proposed rule also would require bank service providers to notify clients, client banks, if such service providers experience a computer security incident that disrupts or degrades banking services for four or more hours.

So, why did we propose this rule? We stated this notification requirement is intended to serve -- and I think these are the key words -- as an early alert to a banking organization's primary federal regulator -- and we said this in the preamble -- and is not intended to provide an assessment of the incident.

As banking regulators and with you all, and some of

your states already have rules like this, once we have that early alert, we can interact with a bank in an appropriate way or the service provider to watch their recovery efforts and ask questions. What we need to know at the very beginning is just that it's occurred. Because it was -- the rule -- intended to simply provide an early alert and not intended to provide an assessment, the bank notification could be as simple as a phone call to the regulator.

Now, to the major themes and feedback, which I've summarized on this slide. The first comment reacted to a part of the NIST computer security incident definition that we used, which talked about policy violations, for example. The comments also mentioned that there are planned outages for system maintenance that might be caught up in these notifications.

The second theme there had to do with reporting complexity. One item in relation to these comments was that the draft rules service provider requirement was to report to two bank employees. And, that was an example of the complexity that some commenters pointed out.

The third theme had to do with the point at which the 36-hour clock starts for notification, which

commenters said was unclear in some cases. And then, the fourth comment pointed to the requirement in many cases, for notifications to banks of outages at service providers that are already in contracts. The fifth theme pointed to the existence of other regulations that have some bearing on the situation which regulations we also identified in the Federal Register notice like the suspicious activity reporting requirements, the Gramm-Leach-Bliley Act incident response plan requirements that do have some notifications in them.

So, those are not all the comments but obviously, just as I say, the major themes. We are considering all these comments and thought it might be helpful to review the feedback with you all since incident notification is something in the headlines much more recently. And, again, I know several states even on the call have existing incident notification requirements.

Before I close, I just want to -- and turn it over to Lisa Arquette to talk about the AML Act of 2020, I just want to thank -- I know Director Tom Fite is not here but I did listen to Superintendent Kevin Allard earlier -- for working with the FDIC and the other federal regulators to continue to improve our program for state participation

and service provider exams. States have participated in service provider exams for many years and because of their work in particular, more states are joining us on those exams. And, I think the information sharing is just getting better and better. So, I really appreciate their work. We were on a call with them, a routine call we have, Tuesday, I guess yesterday morning or afternoon, and just really appreciate their collaboration with us on that. So, with that I'll turn it over to my colleague, Lisa Arquette, to talk about the AML Act of 2020.

MS. ARQUETTE: Thank you, Martin, and good afternoon, everybody. I plan to focus on certain significant provisions of the Anti-Money Laundering Act that will impact state regulators. The AML Act was passed by Congress on January 1st of 2021, as part of the National Defense Authorization Act.

The AML Act is the most comprehensive set of reforms to the Bank Secrecy Act since the passage of the 2001 USA PATRIOT Act. The Bank Secrecy Act has been in place for 50 years since 1970, and has undergone many changes, this being the most significant since 2001. The key objective of the AML Act is to modernize the AML, Anti-Money Laundering, Countering the Financing of Terrorism regime,

or AML/CFT.

The first section that I would like to highlight is Section 6101, which directs the Department of the Treasury to establish and make public national AML/CFT priorities. The Financial Crimes Enforcement Network, or FinCEN, which is a Treasury bureau and they are the administrator of the Bank Secrecy Act, published these AML/CFT priorities on June 30th of 2021. These priorities focus on threats to the U.S. financial system and to national security.

These priorities in no specific order include corruption, cyber-crime, terrorist financing, fraud, transnational criminal organizations, drug trafficking organizations, human trafficking and smuggling, and proliferation financing. These priorities are intended to assist all covered financial institutions, including banks, to combat money laundering and to counter terrorist financing. At a minimum, the priorities will be updated at least every four years to account for new and emerging threats to the U.S. financial system and to national security.

The FDIC along with the other federal banking agencies, FinCEN, and state bank and credit union regulators issued a statement on June 30th, which was

concurrent with the issuances of the priorities. We issued it through Financial Institution Letter 46-2021. That statement makes clear that FinCEN's publication of the priorities does not create an immediate change to BSA requirements or to supervisory expectations for banks.

Importantly, FinCEN recognizes that not every priority will be relevant to every bank. But, each bank should review and incorporate these priorities into the BSA compliance program, as appropriate. Next slide, please.

FinCEN is also required to promulgate regulations regarding these priorities. A notice of proposed rulemaking from FinCEN is expected in the near term. And, FinCEN will announce in the proposed modifications, in the NPRM, the priorities and how those priorities will fit into the compliance program -- the AML Compliance Program. The FDIC, along with the other federal banking agencies, plans to revise the BSA Compliance Program rule to incorporate these priorities in a manner consistent with FinCEN's amendments. The final rule and the preamble to that rule will provide clarity regarding how these priorities should be reviewed and incorporated into a bank's BSA Compliance Program. In the meantime, if you

or your staff are interested in understanding the basis for these priorities, you could review the 2020 National Strategy for Combating Terrorist or Other Elicit Financing and three related risk assessments.

These documents, which form the basis of the AML/CFT priorities, were issued by the U.S. Department of Treasury and can be located on the FDIC's public website on the banker's resource Bank Secrecy Act page. These documents include various vulnerabilities to the financial system. But, again, at this time, there is nothing that banks or examiners are required to do relative to these priorities. Next slide, please.

The next important provision to be aware of is referred to as the Corporate Transparency Act. It addresses changes to how beneficial ownership information will be collected and reported. FinCEN will soon issue a notice of proposed rulemaking associated with this change.

FinCEN will be required to maintain beneficial ownership information in a confidential, secure, and nonpublic database. After the development of the database and consistent with the implementation date of FinCEN's new regulation governing the collection and storage of beneficial ownership information, then banks will no

longer be required to collect beneficial ownership information. FinCEN is authorized to disclose that information with the consent of the reporting company to banks, and others to facilitate compliance with customer due diligence requirements. Next slide, please.

Finally, I want to highlight for you a few AML Act sections that will likely impact state regulators. Section 6209 relates to testing methods rulemaking, and it requires the Secretary of the Treasury to issue a rule regarding standards by which financial institutions are to test technology and technology-related internal processes that facilitate compliance with BSA regulations, for example, standards associated with suspicious activity monitoring systems. The standards may include an emphasis on using initiative approaches, such as machine learning or other enhanced analytics processes, risk-based testing, oversight, and other risk management approaches, specific criteria for when and how risk-based testing against existing processes should be considered to test and validate the effectiveness of relevant systems, specific standards for risk government frameworks for financial institutions, requirements for appropriate data privacy and information security, and requirements that the system

configuration include any applicable algorithms and validation of those configurations used by the institution and that those be made available to FinCEN and the federal functional regulator.

The reason that it would be important to state regulators clearly is that these will be standards for banks that we all supervise. There is another requirement in Section 6209 that requires the FFIEC, Federal Financial Institutions Examination Council, to update our BSA/AML Examination Manual to reflect the standards and the rulemaking. That's definitely a first.

The next section that I want to highlight is 6216, which requires Treasury to undertake a formal review of regulations implementing the Bank Secrecy Act and required and related guidance -- excuse me, related guidance not required. The purpose of the review is to ensure that these regulations and the associated guidance continue to protect the financial system from threats and that they continue to require certain reports or records that are highlight useful to countering financial crime. Additionally, the review is intended to identify regulations and guidance that may be outdated, redundant, and otherwise that do not promote a risk-based AML/CFT

regime or that do not conform to international standards. FinCEN has coordinated with federal banking agencies and with state regulators related to this formal review process and will seek public comment regarding any proposed changes.

The last AML section that I wanted to highlight today requires annual AML/CFT examiner training. With respect to potential risk profiles and warning signs that an examiner may encounter during examinations, financial crimes, patterns and trends, the context for why AML/CFT programs, or for us, BSA programs are necessary for law enforcement agencies and for other national security agencies and what risks those programs seek to mitigate, and the effect of de-risking on the provision of financial services.

The Department of Treasury is required to consult with the FFIEC and others to establish training materials and standards for use in this annual examiner training. The last item that I have on the slide is the FFIEC/BSA/AML Examination Manual. As you might know, the federal banking agencies, along with state regulators, developed the FFIEC manual in 2005, and we have updated it several times since 2005.

Right now, the manual is undergoing a review and update of every section, including an emphasis throughout the sections on the bank's risk-based approach to BSA compliance and examiner's risk-focused approach to BSA/AML supervision. We have also diligently evaluated each section to clarify legal requirements versus examiner instruction. We've taken significant steps to be very clear on what the requirements are versus steps for examiners.

The manual will be updated to reflect requirements of the AML Act such as Section 6209, the testing standards. And, in fact, we have four sections under review right now that we plan to publish by year-end. So, I want to thank you and your colleagues for the hard work in updating the FFIEC/BSA/AML Examination manual that we jointly publish, and I thank for you time today. And, with that, I will turn this back over to Doreen and Mark. Thank you.

MS. EBERLEY: Okay. Thank you to Mark, Martin, and Lisa. Let me pause a moment and see if we have any questions or comments or discussion items.

All right. I'm seeing none. So, we will go ahead and move forward to our next presentation. So, next, we have Diane Ellis, the Director of the Division of Insurance

and Research, along with Dan Hoople, who is a financial economist in the Division of Insurance and Research. And, they're going to talk about community bank research. Diana, Dan.

MS. ELLIS: All right. Thank you, Doreen, and good afternoon, everyone. I'm happy to have 15 minutes on this agenda, just to give you a quick update on some research that we thought would be of interest to you all and that's really what Dan is going to do.

I'm just going to take a few minutes here before passing the baton over to him to reflect a little bit more on the 2021 Community Banking Research Conference, which John Ryan mentioned earlier. That was just a week or so ago, and it was the ninth annual conference. It's the fourth where the FDIC has cosponsored along with the CSBS and the Federal Reserve System.

And, I just want to state how very pleased we are to be a cosponsor of this conference, which gathers bankers, researchers, and supervisors to discuss challenges faced by community banks. The conference has really achieved what we believe is a very high level of quality. And, as I've heard John Ryan say before, it's first and foremost a research conference. And, I really appreciate his

continued focus on that fact. And, I would say that it's quite a very good research conference. The conference is really -- is attracting paper submissions from well-respected and high profile researchers, both in the United States and internationally.

For a couple of years now, we've had papers accepted from authors abroad which I just think -- it's wanting on to write on you have community bank issues. So, I think that's just fantastic. We're going worldwide here.

But, it's a unique research conference. It's just not -- it's not just researchers talking to each other. The conference also has bankers and supervisors, and I think everyone gets a lot out of this combination of stakeholders.

The bank -- I think it's good for the bankers and supervisors to know what sort of empirical research is being done to answer some of the most important policy and operational questions affecting banks. But, I also know for a fact that the researchers get an awful lot out of the real world and sort of practical feedback that they get from the bankers who serve as discussants or keynotes and also the supervisors as well. In this conference, just like the prior ones, had an excellent agenda with

high quality research, keynotes, policy discussions.

It included keynotes from our Chairman, Chairman McWilliams, and Governor Miki Bowman. Chairman McWilliams emphasized the importance of transparent communication from regulators in building and maintaining trust in the financial system; and emphasized the importance of evolving the regulation, supervision of, and communication with community banks, so that they can remain competitive and continue to provide the services to meet all the needs of the members of their community. And, the research sessions really reinforced many of the themes of those keynotes.

There were a couple of papers that found that the Federal Reserve's Paycheck Protection Program Lending Facility allowed banks to make greater volume of PPP loans to the communities. Two papers found that bank's supervision had a positive effect on bank's willingness to lend to minorities and to recognize trouble to failing loans, something that all members of this audience should appreciate. Always nice when this is -- when something we know to be true is empirically proved by the researchers.

And, then one paper demonstrated how uncertainty

about PPP loans led -- or the program led to firms returning certain PPP loans. And, here's an example where that research was echoed and the experience shared by David Krause, President and CEO of Pioneer Bank in Mankato, Minnesota, who had faced that very situation. So, again, just one example of how great it is to bring together researchers and bankers who confirm or dispute or deny each other's assumptions and experiences. So, again, that's a great example of the benefit of this conference.

One thing we were particularly excited about at this conference is that we had the first-ever live FDIC podcast in conjunction with a conference. And, the conference has always had a bankers panel to talk about a topic of importance to everyone and this time, we decided that the future of commercial real estate would be the topic.

In this particular case, we brought together Brian Sullivan in FDIC's corporate communications who hosts our podcast series, along with Bob DiChiara -- also from the FDIC, and he leads our CRE team in my division -- along with three bankers, John Buran, Jim Edwards, and Joanne Kim, who talked about where are we with the state of commercial real estate. And, all three bankers, I think it's fair to say, were cautiously optimistic about the

future of CRE, a somewhat counterintuitive perspective given the impact of the pandemic on the economy. And, I won't go into the specifics of what they said but I will say that we're kind of -- we're very pleased that this podcast will live on, on our website in our podcast series. So, I appreciate the planning team members from the CSBS and the Federal Reserve who are always looking for something new to do each year. What sort of new thing can we introduce? How can we keep this conference fresh and relevant?

And, that was sort of the new innovation this year is the FDIC podcast occurring at the same time as the banker's -- or serving as the banker's roundtable at this conference. So anyway, just -- I want to just take a -- like I said, take a few minutes and reflect on the importance and the quality of that conference and, again, express our appreciation for our partnership with CSBS and Federal Reserve. And, we look forward to many more years of this successful partnership.

So, now I'm going to turn it over to Dan Hoople who's going to use the remaining minutes of our segment to talk about some research he's done using some data that we love that's collected by the CSBS. We've used these data

before on banks’ use of technology. It's really the only place to go to find any kind of data on this issue, how much the bank's use technology.

He's used it for analysis in our community bank research paper we published last year. But, he's now found a new application for it. And, I'm going to turn the floor over to him and let him describe what he's done next. Dan.

MR. HOOPLE: Great. Thank you, Diane. I'm just going to follow up, like Diane said, on one of the themes from the community bank conference. Looking at a couple of aspects of how community banks faired during the pandemic, specifically the article that was published recently in the FDIC Quarterly, focuses on -- or asks the question of how prior investment by community banks in their technology stacks affected a couple of key outcomes, specifically deposit and loan growth during 2020.

And, this question arose out of thinking back to the beginning of the pandemic and throughout where community banks, their customers, and their employees needed to move from where technology was a convenience, to where technology was a necessity in the face of temporary branch closures, mandatory stay at home orders, or just a general

desire to limit physical contact. And so, the hypothesis was that banks that had invested more in technology leading up to the pandemic might've been -- had an easier time pivoting to a technology first or technology prominent strategy of interacting and doing business with our customers. And, therefore, then that would show up in loan and deposit growth during 2020.

And, the difficulty with this question, of course -- and Diane has already alluded to this -- is that the data on technology spending and adoption is very limited. And, this is where the second touch-point with the conference comes in with this article. As Diane mentioned, one of the highlights of the conference for me, and many others, is the overview of the survey that the Conference of State Bank Supervisors does the survey of community banks that they do each year.

They ask a variety of questions, including questions related to technology. And, those questions formed a solid basis of, as Diane mentioned, research that has been done in the past, in 2020, for the community bank study as well as this article. And, I would be remiss not to echo Diane's comments that -- of appreciation and thanks to CSBS, the state regulators, and the community banks for

continuing to encourage, support, and participate in this survey because it really is a fantastic source of information, not only for technology investment, but also other aspects of how community banks operate and thrive.

And, as I said, this was a key data input as well as data from the Call Report and some data from Aberdeen Data Technology Cloud. And, with those data, we created a multitude of four different measures where we were able to separate banks into banks that had invested less in technology and banks that had invested more in technology and then compare those during the pandemic. And, what did we find?

I think one of the key findings is depicted on this slide, and that relates to loan growth. And, what we generally found is that community banks that invested more in technology reported faster growth in 2020 than banks with less investment in technology prior to the pandemic. No, this wasn't a new phenomenon. It's something that we did see prior to the pandemic as well. As you can see in the lighter blue bars and the purple bar or rather the bars that are slightly to the left of each set, banks that invested more in technology grew faster prior to the pandemic as well. But, what was interesting is that in

2020, that differential between high investment and low investment in technology, banks widened during the pandemic in 2020.

And so, banks at that point grew even faster in their loans had they invested more in technology prior to the pandemic. And, this was not something that was focused on large banks or banks in metropolitan areas. It was something that we saw, albeit at different magnitudes above and below the median asset size among metropolitan banks, among rural community banks.

It was something -- it was a pattern that held throughout those different subsets. And, I don't think it's a surprise to anyone familiar with banking during 2020, or at least lending that most of this differential in loan growth was driven by participation in the Paycheck Protection Program. In fact, if you remove PPP loans from the equation, the differential moves back to the way it was pre-pandemic.

So, this was interesting, and what the article then does is because this differential, this widening occurred only in this one loan subset, it delves into this question of, was there something special or different about PPP lending, either the loans themselves or the situation in

which they were made in, that gave this maybe additional advantage to banks that had invested more in technology. And so, the article explores a couple of different possibilities. One, that banks with greater technology invested just simply made larger loans. They didn't necessarily help more borrowers or lend to more borrowers. They just -- the loan size was larger. It looked at whether banks that invested more in technology made these loans all earlier, where they were faster out of the gate and that's where the advantage came in and also whether these banks were -- whether technology investment was associated to how far the borrower was from the closest bank branch.

And so, for each of these categories, like, what we saw was that it did follow maybe what you'd expect, that banks that invested more in technology tend to make loans to larger borrowers. They did tend to make loans at a greater rate or rather that the share of PPP loans to assets was larger for a greater distance from the bank as well as early on. However, what was interesting is that this advantage of high investment banks and technology was present throughout the distribution. So, it didn't matter what the loan size was. It was for the largest loans, but

it was also for the smallest loans that banks that invested more in technology had a larger share of PPP loans to assets. Same goes for time, every week of the program, there was this advantage for higher investment in technology. And then, finally, distance, at 100 miles or more or 5 miles and less, banks that invested more in technology had a greater share of PPP loans to assets.

And so, what this maybe says is that there wasn't necessarily one key factor that could be pointed to, to say that a greater investment in technology led to this outcome because of A, B, or C. It really was a mix of all of them and it certainly begs for further research to dig into this and maybe see if there is better data, more information to continue to dig at this question.

Now, as I mentioned, we also looked into this for deposit growth. And, what we saw was a very similar pattern for loan growth. Banks that invested more in technology prior to the pandemic had increased deposit growth before 2020. But, in 2020, that pattern held but widened further, so again, similar to loan growth. Unfortunately, we don't have a lot of data at the individual depositor level. For PPP loans, we were able to use SBA individual loan level data. But, we didn't

have similar data at the deposit account level to be able to say, it was deposits from these type of customers or perhaps deposits associated with PPP loan proceeds.

What we were able to glean a bit from Call Report data is that the faster deposit growth did seem to stem from existing customers. So, what we did not see is that an increase investment in technology led to more deposit accounts, number of accounts, for these banks. So, it did seem to be a growth in deposit balance size rather than new depositors net flowing into these banks.

So, in sum, I think the article kind of presents interesting evidence to indicate that prior technology investment did have an association with deposit taking and lending functions for community banks during the pandemic. I think it'll be really interesting and I know it's something that we'll look at in the future and I hope others do as well to dig further into the why as well as whether these trends continue into the new normal.

And, like I said, I certainly look forward to continue to dig into that question. And so, with that, I think I'm fully wrapped up. I'll turn it back to perhaps open up to questions or questions for Diane about the community bank conference.

MS. EBERLEY: Thanks, Dan, and thanks, Diane. Any questions or comments?

Okay. I am scanning through. I see no hands raised. So, Diane, Dan, thank you very much for your presentation, really appreciate it. Okay. Next up is Betty Rudolph, National Director of Minority and Community Development Banking. And, Betty is going to provide us with an update from her area of work. Betty.

MS. RUDOLPH: Well, thank you, Doreen. And, it's a pleasure to be here. I don't think I've ever met with this group before, so I'm really pleased to provide you an update with what's happening in the minority and community development banking area.

As the National Director for Minority and Community Development Banking, my role is to preserve and promote mission-driven banks. And, that includes about 144 FDIC-insured minority depository institutions, or MDIs, and 168 community development financial institutions that the FDIC also insures. Our research has shown that these banks play an outsized role in serving minority, low income, and rural communities relative to their size, and this is what we put forward resources to preserve and promote these institutions.

So, just a quick overview. Of the fourteen commissioners on the committee, eight of you have MDIs headquartered in your states. And, those total 33 FDIC supervised banks. And, that's about a third of the banks that we supervise overall. And, five of you supervise 14 FDIC supervised CDFI banks or about twelve percent of the 115 CDFIs that the FDIC supervises. So, I think we have some good representation on the committee of these institutions.

I'm going to talk about two things this afternoon. The first one is the Statement of Policy Regarding Minority Depository Institutions, which our FDIC Board approved this past June. This is a policy statement that sets forth the FDIC's commitment to preserving and promoting these institutions, and it's been around since 1990.

But, we strengthened it and we had circulated a draft for public comment back in late 2019. And then, the Board approved the final one in June, as I mentioned. And, we subsequently published it in the Federal Register in June, and it became effective on August 23rd. And, I believe you have a copy in your packet of materials.

The one key point I was going to bring to your attention today is that the statement of policy includes

an affirmative statement that the Uniform Financial Institutions Rating System, or UFIRS, and the Uniform Interagency Consumer Compliance Rating System, UICCR, both expect examiners to recognize the distinctive characteristics and differences in core objectives of each financial institution, and to consider those unique factors when evaluating the institution's financial condition and risk management practices. And, specifically, examiners are instructed to consider all relevant factors when assigning a component rating.

And, these rating systems are designed to reflect the examiner's assessment of the individual institution based on its size and sophistication, the nature and complexity of its business activities, and its risk profile. And, we also stated that peer comparison data are not included in the rating criteria. And so, we thought it would be important to just -- while this has always been the case to affirmatively state that in the statement of policy, we had received feedback from institutions that, particularly, I think in the earnings component that these institutions felt that their unique circumstances as a mission-driven institution were not necessarily taken into account.

So, we're developing some training for our examiners regarding these unique business models and applying the factors. So, now I'd like to turn to the presentation on your screen which is a brief update on the Mission-Driven Bank Fund. And, this fund, the FDIC launched the fund on September 16th, so just a couple of weeks ago, with a press conference that Chairman McWilliams had and a website that we launched which includes a copy of this Mission-Driven Bank Fund at a glance, which I think you also have in your packet. Mike, if you'd advance to the next slide, please.

The fund came about -- the idea, I think, a couple of years ago. And, it was to provide investors with an opportunity to support mission-driven banks that do support low and moderate income, minority, and rural communities. And, support for these institutions really helps them build their size, scale, and capacity which will enable them to have a greater impact in the communities that they serve. Next slide, Mike.

This is just a brief recap. There are about 280 mission-driven banks that are FDIC insured MDIs and FDIC insured CDFIs that cover branches in 29 states. I mentioned our research shows the outsized role that these institutions play in serving low or moderate income

communities and minority communities. And, for CDFI banks, they are actually required to get their certification to have 60 percent of their lending and other financial services in low income communities. Next slide, Mike.

So, the fund is -- this is just a very simple graphic that private investors, which include corporations, financial institutions, and philanthropic organizations invest in the fund. As of September, we have $120 million committed and growing. That includes our two anchor investors that were announced on September 16th, Microsoft Corporation and Truist Financial Corporation along with Discovery, which is a founding investor as well.

And, we have $15 million in matching funds committed as well. So, the next $15 [million] will raise $30 [million] and bring that up to $150 million. And, this is sort of before our launch.

And so, we have -- since our launch, our mailbox, we've received a number of inquiries about -- from potential investors, from MDIs and CDFIs, wanting to know how they can access the fund and other interested stakeholders. So, the fund will invest in mission-driven banks through small business loans, home mortgages,

community development loans, among others. And then, these banks in turn support their communities which are largely minority, low income, and rural. Next slide, please.

This is just designed to depict sort of the three major stakeholders in the fund. And, at the top of the pyramid on the right, we show MDI and CDFI banks. As part of designing the fund, the FDIC hired a financial advisor and two outside law firms, and worked to develop the design based on input from interested stakeholders.

So, we met with about 70 CEOs of MDIs and CDFIs. That included those nine that serve on our advisory committee, our MDI Subcommittee, as well as members of some key trade groups that support MDIs and CDFIs. And, we met with some potential investors.

And, essentially, some of the interest of these stakeholders conflicts at some point. And, our fund is designed to prioritize the impact within the communities that MDIs and CDFIs serve. So, we heard from them, they want patient permanent capital. They would like flexibility in the types of investment that this fund might make in them, whether it be equity or debt or other types of funding which we'll talk about on the next slide. They

talked about minimizing the operational burden of the underwriting process.

And, the investors obviously would like to see the return of their capital and a modest return on their capital. This fund is designed to provide a very modest return, and that's what most of these impact investors are looking for. They want to focus on prioritizing impact in these communities as well.

And, obviously, they want access to liquidity as well and to hear about how their investment is making an impact in these communities. And, the fund manager will bring it all together by underwriting these investments, minimizing complexity and costs, meeting the fund performance targets, and planning for the exit of the fund -- execution of the fund exit. Next slide, please.

So, the fund would provide for MDIs and CDFIs. They would come in and give a pitch. And, I think when Chairman McWilliams talks about the fund, she talks about how she was inspired by -- after visiting a number of MDI CEOs, she was on a flight and saw an episode of Shark Tank and really liked the aspect of empowering someone to come forward and give a pitch for something that they need. And so, that's sort of how this fund is designed.

And so, banks will make pitches to the fund for potential investments in a variety of asset classes. And, that's what we did hear from those 70 CEOs that no one MDI or CDFI is alike. They're very unique in terms of their business models, the customers that they serve, whether they'd been around 125 years or if they are brand new, whether they're serving longtime residents or new immigrants. They all have unique needs. So, they like the flexibility of being able to come forward with a pitch.

And, some of the suggested pitches that we heard in our design of the fund included equity, but also loan participations, loan share agreements, CDs, term debt, and importantly the next to the last bullet there, investments proposed by mission-driven banks. And, that's things that we might not have thought about and that the banks come forward with or a group of banks could come forward with. So, these would be pitches that will be making a difference in their communities and that will provide a modest return to investors.

And then, we have a bullet there for strategic advisory service as we did here from a number of these CEOs that they would -- maybe when they were coming forward with their pitch, they may not have their capital stack

structured as efficiently as they might want. Or, they might want some strategic advisory services around building out an IT roadmap or a digital transformation roadmap. So, we're envisioning the fund would provide some of those strategic advisory service as well. Next slide, Mike.

This is designed to show sort of the fund manager and how they work in what we're calling the ecosystem of the fund. So, in that outer ring there, we have mission-driven bank's stakeholders, business leaders, and community leaders, and they would all be part of an advisory council that would be overseeing this fund.

Their role would be to support the mission focus, share community perspectives and the FDIC will be a member of that advisory council serving in a non-voting capacity. And, that is all designed to sort of keep the fund on track with its mission focus. And, the fund manager roles there are basically to underwrite the pitches. I think we talked about some of these other roles, managing the fund targets, planning for the fund exit that we talked about on the prior slide.

I do want to draw your attention to the fourth bullet there, that the anchor investors, Microsoft and Truist

Financial Corporation, will be selecting the fund manager based on a competitive process. And, they will be emphasizing the mission perspective with prospective candidates for a fund manager. And, they will be informed by input from mission-driven banks. Next slide, please.

This is just a recap of where we are. So, we've, to-date, secured $120 million and growing. We designed the fund structure. I spoke a little bit about that.

The outside law firms drafted some terms and conditions, and then we sort of shared that with the anchor investors. And, we've been working with them now. On the right-hand side there, we announced the anchor investors when we launched on September 16th.

We didn't make our target of September 30th for soliciting the fund manager. I think that's still a couple of weeks away. One of the fun things about working on this fund is that it's a unique public-private partnership. And so, we've got one government agency that has a set of governance and stakeholders. And then, we've got two private corporations that operate within their sort of governance structure and government relations and communications and lawyers and all kinds of folks. So, it's just taking a little bit longer as a public-private

partnership. But, I think it's working really well. So, we're looking forward to announcing soon that they are going to be soliciting the fund manager.

And then, the goal was to onboard the fund manager in the fourth quarter, finalize the funds, terms, and conditions, form the advisory committee, secure the first round of funding. And, we will be working with the fund manager to advise mission-driven banks about the pitch process. And, we're happy to work with any state supervisors, if that's a role you would like to help us with as well to make sure that any FDIC insured institution understands about the process and the fund and what opportunities this provides for them.

And, all of that's with a goal for actually hearing the first round of pitches in the first quarter of next year. And, the next slide, Mike, just shows a recap of some of the key terms and conditions for the investors. I think what I would emphasize here is this is a -- well, target size, we're aiming for 500 million to a billion dollars. We have just started sort of more formally talking to investors other than the anchor investors and founding investors we secured. It's a ten-year closed end fund. It has a specific focus on mission alignment and

fund purpose written into -- embedded in the founding documents which we think is important.

And then, there are just a few more things there about the investment period distributions and investment limitations -- I won't get into detail on that -- and then the reporting requirements for the fund manager. And, the last slide is just our standard disclosure for any conversation about investments. So, with that, I will conclude the presentation and see if there are any questions.

(No response.)

MS. RUDOLPH: The last thing I'll mention, then, if there are no questions, is the presentation, which I think you have a copy of, also has a copy of the mission-driven bank fund mailbox. And so, if there are any questions you have, feel free to send in a question and we'll get around to it. Thank you, Doreen. I'll turn it back to you.

MS. EBERLEY: Okay. Thank you, Betty, very much. And, thank you to everybody, all of the committee members and today's presenters. We really appreciate everybody's participation. I will turn things over now to Director Gruenberg for some closing remarks. Director Gruenberg?

DIRECTOR GRUENBERG: Thank you, Doreen. I'll be

very brief. I want to thank all of the commissioners for taking the time today to participate. I want to say a word of acknowledgment, if I may, to Ray Grace who had been a member of this committee. I'm sure he's known to all of you, the former Banking Commissioner for North Carolina. As you all may know, Ray retired in July, and we just wanted to say a word of thanks to Ray for his service to this committee, to the state of North Carolina, and to his country. We very much appreciated our relationship with him.

I was struck in the roundtable today the comments by the commissioners, by the commonality of their observations as to what's happening in their states. I think perhaps reflective of the fact that we're all still being impacted by this pandemic. And, we still clearly have a ways to go in working our way through this experience. And, to me, it underscores the importance of our working relationship as we try to steer our supervised institutions through this pretty extraordinary time.

So, listen, thank you all again. We really appreciate your willingness to serve and share your thoughts with us, and we'll see you the next time. Doreen, do you want to close it out?

MS. EBERLEY: I think we are all set. Thank you so much, Director Gruenberg, and thank you, everybody. We'll see you next time. Thank you very much.

(Whereupon, the above-entitled matter went off the record at 4:38 p.m.)