

The Meeting of the Advisory Committee on Community Banking

of the

Federal Deposit Insurance Corporation

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation via Webcast

July 22, 2021 - 1:00 P.M.

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

Committee members present at the meeting: Mike Bock, CEO, Dairy State Bank, Rice Lake, Wisconsin; Anthony Capobianco, President and CEO, American Community Bank, Glen Cove, New York; Sarah Getzlaff, CEO, Security First Bank of North Dakota, New Salem, North Dakota; Stephen Hayes, Chairman and President, Dakota Prairie Bank, Ft. Pierre, South Dakota; Harold Horvat, President, CEO, and Chairman, Centreville Bank, West Warwick, Rhode Island; Betsy Johnson, President and CEO, Solutions Bank, Forreston, Illinois; Kenneth Kelly, Chairman and CEO, First Independence Bank, Detroit, Michigan; Bruce Lowry, President and CEO, Ireland Bank, Malad City, Idaho; Neil McCurry, Jr., President and CEO, Sabal Palm Bank, Sarasota, Florida; Teri Messerschmitt, President and CEO, South Ottumwa Savings Bank, Ottumwa, Iowa; Patty Mongold, Chairperson, President, and CEO, Mt. McKinley Bank, Fairbanks, Alaska; Gilbert Narvaez, Jr., President and CEO, Falcon International Bank, Laredo, Texas; Margaret Oldner, CEO, Stone Bank, Mountain View, Arkansas; Mark Pitkin, President and CEO, Sugar River Bank, Newport, New Hampshire; and John Wharton V, President and CEO, Yampa Valley Bank, Steamboat Springs, Colorado. All members attended via videoconference.

Committee members absent from the meeting: Shaza Andersen, CEO, Trustar Bank, Great Falls, Virginia; Cynthia A. Kitner, President and CEO, Jefferson Security Bank, Shepherdstown, West

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Virginia; and Andrew West, President and CEO, Eagle Bank, Polson, Montana.

Director Martin J. Gruenberg attended the meeting. Corporation staff in attendance: Lisa D. Arquette, Bobby R. Bean, Kendra A. Berch, Amy B. Brown, Michelle L. Cahill, Tiffany Cochran, Kymberly K. Copa, Doreen R. Eberley, Richard Foley, Eric S. Fultze, Shannon N. Greco, Patricia S. Gurneau, Martin D. Henning, Arleas Upton Kea, James D. LaPierre, M. Anthony Lowe, Sultan Meghji, Brandon Milhorn, Rae-Ann Miller, Kathy L. Moe, Shayna Olesiuk, Elizabeth Ortiz, Jason A. Pan, M. Rowie Pangilinan, Nikita Pearson, Harrel M. Pettway, Nicholas J. Podsiadly, Evelyn D. Rainey, Ariana L. Rambuyan, Lisa K. Roy, Betty J. Rudolph, Jarrod Sanders, Michael Shaheen, James P. Sheesley, Noah J. Teixeira, John F. Vogel, Kenneth J. Weaver, Lauren A. Whitaker, Lisa M. Williams, Katrice L. Yokley, and Matthew Z. Zamora.

Jocelyn Sutton attended from the Consumer Financial Protection Bureau.

William A. Rowe attended from the Office of the Comptroller of the Currency.

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

### **Introductory Remarks**

Chairman McWilliams welcomed members to the Committee's second meeting of 2021 and thanked them for making time to participate. She noted the significant progress the United States has made in recovering from the COVID-19 pandemic since the Committee's prior meeting in April. She also praised community banks' role in providing necessary capital, credit, strength, and solidarity to their communities and conveyed her gratitude and that of the FDIC. She noted her excitement to see what progress has been made since April and hear more about what the FDIC can do to improve the community banking sector.

Chairman McWilliams then welcomed Anthony Capobianco, President and CEO, American Community Bank, Glen Cove, New York, to his first Committee meeting. She expressed her hope to soon be able to welcome all Committee members in person, and said she

nonetheless looked forward to today's discussion. She then introduced Ms. Kea as the moderator.

Ms. Kea invited opening comments from Director Gruenberg and Acting Comptroller Hsu. Director Gruenberg welcomed all Committee members and thanked them for their time. He emphasized the importance of the meeting in understanding community banks' perspectives on economic conditions. He recalled that, at the prior meeting, most participants seemed to share a positive outlook. He conveyed his gratitude to the meeting participants for their willingness to share their experiences.

Ms. Kea noted that Acting Comptroller Hsu had yet to join the meeting. She then invited opening remarks from General Counsel Nick Podsiadly, who noted that because three members of the FDIC Board of Directors were expected to join the Committee meeting, a reminder about the Government in the Sunshine Act was in order. He explained that three members of the Board typically constitute a quorum, but that any informal and exploratory discussions among Committee and Board members did not constitute a meeting of the FDIC Board of Directors and, therefore, was not required to be open to the public or subject to any notification requirements present in the Sunshine Act. He further stated that staff will identify any specific issues or proposals requiring further deliberation by the Board and refer any such matters to the Board, such that those actions may be open to full Board consideration at a later time.

### **Community Banking Conditions**

Ms. Kea then turned the meeting over to the Committee members for a roundtable discussion on local banking trends and issues. The Committee members discussed a broad range of topics, including the following:

#### **COVID-19 Pandemic and Response.**

All of the members discussed the continuing impact of the COVID-19 pandemic on their communities and banking operations. Members provided updates on the rates of infection and hospitalizations. Most members reported improvements in such metrics. However, several members expressed concern about the Delta variant and a potential winter surge. Member Oldner indicated that COVID remains a significant problem in Arkansas.

Members provided details on local vaccination efforts, including the vaccination of their own workforces. Most members indicated their bank branches have re-opened for in-office work and in-person customer interaction, but some staff continue to work remotely. Member Capobianco noted that keeping branches open during the pandemic has built goodwill with communities. Members described the loosening of public health measures, with mask usage declining and a general trend toward reopening.

Members touched on the role of community banks in supporting businesses and individuals during the pandemic. Half of the members discussed their experiences with the Paycheck Protection Program (PPP). This discussion included statistics on loan originations and forgiveness, assistance provided to customers to navigate the process, and the impact of PPP loans on small businesses. Members noted that the forgiveness process is going well, with most recipients having received forgiveness. Member Messerschmitt indicated that many farmers were eligible for PPP loans, and efforts were made to reach out to potential applicants that could qualify for the funding, including both customers and non-customers, to make them aware of the program. The fees from PPP loans have been a significant source of income for some community banks. Member Kelly discussed the U.S. Department of the Treasury's Emergency Capital Investment Program, in which several minority depository institutions and community development financial institutions will participate.

#### **Economic Conditions.**

All members noted that economic conditions are improving. Almost all members discussed labor shortages, and some also discussed inflation and supply chain challenges. Some members indicated that businesses are reducing hours of operation due to labor shortages. Members also discussed labor shortages within the banking industry, with banks struggling with turnover and hiring. Member Pitkin described challenges with "poaching," whereby banks recruit staff from other banks.

Members reported low inventory and heightened sale prices for housing, especially in states experiencing population growth, reflecting a seller's market. Members discussed rising costs of construction materials, lack of workers, and increased demand for housing. Four members noted that title companies and appraisers are challenged by high mortgage loan demand, which has delayed closings. Member Horvat observed that residential lending is thriving with low interest rates and substantial refinance activity.

Regarding agriculture, several members cited a strong harvest and improving commodity prices. Member Johnson observed that credit unions are competing with banks for agriculture customers. Many members described a rebound in the hospitality industry. Members warned that tourism and agriculture may be impacted by drought conditions and wildfires. Some members noted an increase in commercial real estate lending activity. Members Mongold and Getzlaff indicated that commercial real estate remains an area of concern due to many businesses allowing employees to work from home. Member Hayes noted that commercial accounts are starting to recover from COVID, and there have been fewer past due accounts.

### **Banking Conditions.**

All members reported strong banking conditions in their local markets, and many members indicated that they expect such conditions to continue. Members also described the effect of asset and deposit growth on capital and earnings.

Members reported strong capital and asset quality. However, members have remained cautious as industries recover from the pandemic. Members observed fewer delinquencies and deferrals, and some noted that borrowers who received loan modifications have resumed their regular payment schedules. Members expressed concern regarding margin compression, but indicated that reduced interest income has been partly offset by increased fee income.

Most members reported a rise in deposits, and several members described challenges with deploying the excess liquidity. Member Oldner indicated that banks are trying to maintain credit standards despite the high liquidity environment and are pricing loans lower in an effort to compete. Several members described competition from non-bank lenders who do not have the same regulatory burden or credit underwriting standards. Member Kelly observed that non-bank lenders moved more swiftly than banks on PPP loans.

### **Examinations.**

Three members discussed recent examination experiences. Member Narvaez described the virtual examination as non-intrusive to the bank's day-to-day operations and a positive experience. Member Mongold said that, given the complexity of certain topics, there is no replacement for in-person discussion

with examiners and thus recommended a hybrid format for examinations. Member Bock indicated that FDIC staff started advance preparation with the bank earlier than normal, which gave the bank more time to prepare for the virtual exam.

### **Innovation and Technology.**

Members identified cybersecurity threats, including ransomware, as a major concern. Members described attacks on businesses in their local communities. Member McCurry explained that considerable resources have been invested in prevention, but banks are not sure if such investment is enough. Member Hayes discussed a June meeting of hundreds of bankers across four states that identified cybersecurity as the number one issue that keeps them up at night in 2021. Member Wharton described an increase in fraud attempts, including those involving automated clearing house transactions and emails that are specifically targeting real estate transactions, in the range of \$25,000 to \$150,000.

Members noted that the pandemic has accelerated the adoption of online banking and interactive teller machines. Members also discussed digital platforms being used for cryptocurrencies, and Member McCurry recommended that banks adapt to such trends to stay relevant with younger consumers.

### **Diversity, Equity, and Inclusion.**

Members discussed efforts to promote diversity, equity, and inclusion. Member Kelly observed that discussion of diversity, equity, and inclusion is at the highest level it has been in his career, and one question is how to turn such discussion into tangible outcomes. Member Wharton expressed excitement about the FDIC's #GetBanked initiative and an overall hope that it will bring more people into banking.

### **Other Topics.**

Members Horvat and Johnson discussed acquisition activity at their institutions, and Member Oldner mentioned consolidation activity among Arkansas banks. Member Getzlaff discussed limits recently announced by the Federal Housing Finance Agency (FHFA) and Fannie Mae on loans secured by second homes and investment properties. She indicated that her bank would not be able to sell those types of loans anymore. Member Getzlaff suggested that the FHFA should consider the impact such limits have on

small community banks and implement different standards for smaller banks that are volume based or origination based.

Following the Committee member roundtable, Ms. Kea introduced FDIC staff members to discuss national and regional observations. Shayna Olesiuk, Associate Director, National and Regional Risk Analysis, Division of Insurance and Research, presented on the national economy and banking trends, including a summary of the FDIC's 2021 Risk Review. Then James LaPierre, Regional Director, Kansas City Region, and Kathy Moe, Regional Director, San Francisco Region, presented regional perspectives.

Following this discussion, Ms. Kea thanked the community bankers and FDIC staff for their presentations and announced that the meeting would stand in recess. Accordingly, the meeting stood in recess at 3:15pm.

#### **Update from the Minority Depository Institutions Subcommittee**

The Committee reconvened at 3:25pm. Ms. Kea introduced Member Narvaez and Betty Rudolph, National Director, Minority and Community Development Banking, to present an update on the Minority Depository Institutions Subcommittee, which met on July 21.

#### **Financial Inclusion Update**

Ms. Kea then introduced Nikita Pearson, Director, Office of Minority and Women Inclusion, and Elizabeth Ortiz, Deputy Director, Consumer and Community Affairs, Division of Depositor and Consumer Protection, who presented on FDIC inclusion initiatives.

#### **FDITECH Update**

Next, Ms. Kea introduced Sultan Meghji, Chief Innovation Officer, Office of Innovation, who provided an update on the FDIC's ongoing technology initiatives.

#### **FDIC Ombudsman Update**

Ms. Kea then introduced M. Anthony Lowe, Director, Office of the Ombudsman, who presented an update on the recent activities of the Office of the Ombudsman.

## Supervision Update

Ms. Kea then introduced Doreen Eberley, Director, Division of Risk Management Supervision (RMS). Ms. Eberley provided an overview of the topics to be discussed, then introduced Martin Henning, Deputy Director, Operational Risk, RMS, who presented on cybersecurity risk management practices.

Following Mr. Henning's presentation, Member Lowry commented on the benefit of examiner recommendations and observations that are positive rather than punitive. He said the feedback provided from the FDIC's San Francisco Regional Office has been very useful. Mr. Henning said Member Lowry's input was helpful.

Member Pitkin then commented that discussions with his bank's board and his bank's technology department regarding prior incidents in similar businesses had been valuable in improving their own processes. He also noted that the cybersecurity session of the Directors, Trustees, and Senior Management College, hosted by the FDIC with the New Hampshire Bankers Association, provided useful questions that a Board could ask its information technology (IT) department. He indicated that these questions prompted a dialogue that cultivated a stronger culture of cybersecurity in his bank. He also said that the most significant impediment to continued improvement is cost. Mr. Henning thanked Member Pitkin for his comments.

Member McCurry then stated that he perceives cyber-threats as the greatest risk to his bank. He also observed that vendors and customers have been victims of cyber-attacks. He agreed with Member Lowry's comment about the benefit of examiner recommendations and observations that are positive. He also agreed that cost is a limitation. He looks to the FDIC as a source of information and appreciated ideas for collaboration. Mr. Henning thanked Member McCurry for his comments and said that the FDIC would continue to be creative in how it adjusts IT examination programs.

Member Messerschmitt agreed that the practices presented by Mr. Henning were important and said that her bank continues to monitor incidents. She noted that her bank invites IT personnel to educate board members at the beginning of each monthly board meeting and makes an effort to train all staff throughout the year. She remarked that limited resources, both money and time, have been the biggest impediments to continued improvement. She

noted that the FDIC's communications regarding risk management practices have been helpful. Mr. Henning thanked Member Messerschmitt and the other members who made comments and invited further thoughts via telephone and email.

Mr. Henning then introduced Lisa Arquette, Associate Director, Anti-Money Laundering and Cyber Fraud Branch, RMS, who presented on certain provisions of the Anti-Money Laundering Act of 2020 that will impact community banks.

### **Closing Remarks**

Ms. Kea noted that Chairman McWilliams had to step away from the meeting a few minutes early. Director Gruenberg closed the meeting by thanking Committee members and presenters for their thoughtful participation in the meeting. He expressed that the roundtable was an extraordinary overview of the range of challenges faced by community banks and the broader financial system. He also indicated that the economic environment, when compared to expectations from over a year ago, has been less severe than anticipated. He noted that the remaining uncertainty and winding down of public support accompanying a post-COVID environment will continue to be a focus of the FDIC and the community banking sector. Director Gruenberg indicated that the FDIC is specifically focused on financial risks in commercial real estate, and there may be other underlying risks as well. He added that the next 12 to 24 months will require careful attention. Director Gruenberg concluded by reaffirming the FDIC's intention to remain closely engaged with the Committee. He cited the discussion of cyber risk as an example of the continued value of this Advisory Committee and the FDIC's engagement with it.

Having no further business to discuss, the meeting adjourned at 4:58 p.m.

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Debra A. Decker  
Federal Deposit Insurance Corporation  
Deputy Executive Secretary  
and Committee Management Officer  
FDIC Advisory Committee on Community Banking

July 22, 2021

Minutes  
of the  
Meeting of the FDIC Advisory Committee on Community Banking  
of the  
Federal Deposit Insurance Corporation

Held in the Board Room  
Federal Deposit Insurance Corporation Building  
Washington, D.C.

Open to Public Observation Via Webcast

July 22, 2021 – 1:00 P.M.

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

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Jelena McWilliams  
Chairman  
Board of Directors  
Federal Deposit Insurance Corporation