The Meeting of the Advisory Committee on Community Banking

of the

Federal Deposit Insurance Corporation

Held via Videoconference

Washington, D.C.

Open to Public Observation via Webcast

May 3, 2022 – 1:00 P.M.

The meeting of the FDIC Advisory Committee on Community Banking (Committee) was called to order by Martin J. Gruenberg, Acting Chairman, Federal Deposit Insurance Corporation (FDIC or Corporation) Board of Directors. Michael J. Hsu, Director (Acting Comptroller of the Currency), and Rohit Chopra, Director (Director, Consumer Financial Protection Bureau), also attended the meeting.

Committee members present at the meeting: Mike Bock, Chief Executive Officer (CEO), Dairy State Bank, Rice Lake, Wisconsin; Troy Campbell, President and CEO, Altoona First Savings Bank, Altoona, Pennsylvania; Harold Horvat, President, CEO and Chairman, Centreville Bank, West Warwick, Rhode Island; Robert James II, Executive Vice President, Carver State Bank, Savannah, Georgia; Betsy Johnson, President and CEO, Solutions Bank, Forreston, Illinois; Bruce Lowry, President and CEO, Ireland Bank, Malad City, Idaho; Trey Maust, Executive Chairman, Lewis & Clark Bank, Oregon City, Oregon; Neil McCurry, Jr., Sarasota and Manatee County Market President, Seacoast National Bank, Stuart, Florida; Teri Messerschmitt, President and CEO, South Ottumwa Savings Bank, Ottumwa, Iowa; Dominik Mjartan, President and CEO, Optus Bank, Columbia, South Carolina; Gilbert Narvaez, Jr., President and CEO, Falcon International Bank, Laredo, Texas; Margaret Oldner, CEO, Stone Bank, Mountain View, Arkansas; Arlen Osterbuhr, Chairman and CEO, Minden Exchange Bank and Trust Company, Minden, Nebraska; Shane Pilarski, President and CEO, Alliance Bank, Francesville, Indiana; Kim Reigelsberger, President, Preferred Bank, Rothville, Missouri; and Andrew West, President and CEO, Eagle Bank, Polson, Montana. All members attended via videoconference.

Committee members absent from the meeting: Anthony Capobianco, President and CEO, American Community Bank, Glen Cove, New York; Cynthia A. Kitner, President and CEO, Jefferson Security Bank, Shepherdstown, West Virginia; and John Wharton V, President and CEO, Yampa Valley Bank, Steamboat Springs, Colorado.

Corporation staff in attendance: Lisa D. Arquette, Bobby R. Bean, Shannon M. Beattie, Daniel H. Bendler, Mary Calkins, John P. Conneely, Kymberly K. Copa, Debra A. Decker, Doreen R. Eberley, Kristie K. Elmquist, G. Chris Finnegan, Shannon N. Greco, Patricia S. Gurneau, Robert D. Harris, Martin D. Henning, Bryan E. Jonasson, Jessica A. Kaemingk, James D. LaPierre, Yan Y. Lee, M. Anthony Lowe, Rae-Ann Miller, Patrick M. Mitchell, Shayna Olesiuk, Tara Oxley, Nikita Pearson, Harrel M. Pettway, Ariana L. Rambuyan, Ryan M. Rappa, Lisa K. Roy, Michael Shaheen, James P. Sheesley, Philip A. Shively, Jocelyn Sutton, Maureen E. Sweeney, John F. Vogel, Brian T. Whittaker, and Katrice L. Yokley.

Acting Chairman Gruenberg opened the meeting and presided over the proceedings. Doreen R. Eberley, Director, FDIC Division of Risk Management Supervision (RMS), and the Committee's Designated Federal Officer, moderated the proceedings.

Introductory Remarks

Acting Chairman Gruenberg welcomed members of the Committee to the spring meeting. He remarked on the current state of affairs in the United States and abroad and related economic uncertainties due to rising interest rates, the war in Ukraine, and sanctions on Russia. He acknowledged that these events have impacted the energy and commodity markets and supply chains and noted that these events contribute to further uncertainty regarding the economic outlook. The Acting Chairman reiterated his enthusiasm to hear from the community bankers about what they are experiencing.

Acting Chairman Gruenberg then welcomed the following new Committee members:

- Troy Campbell, President and CEO, Altoona First Savings Bank, Altoona, Pennsylvania;
- Robert James II, Executive Vice President, Carver State Bank, Savannah, Georgia;

- Trey Maust, Executive Chairman, Lewis & Clark Bank, Oregon City, Oregon;
- Dominik Mjartan, President and CEO, Optus Bank, Columbia, South Carolina;
- Arlen Osterbuhr, Chairman and CEO, Minden Exchange Bank and Trust Company, Minden, Nebraska;
- Shane Pilarski, President and CEO, Alliance Bank, Francesville, Indiana; and
- Kim Reigelsberger, President, Preferred Bank, Rothville, Missouri.

Acting Chairman Gruenberg then acknowledged Director Chopra and asked him to say a few words, noting that Director Chopra is a strong supporter of community banks.

Director Chopra acknowledged the unique circumstances referenced by the Acting Chairman. In terms of consumer credit, he said that the Consumer Financial Protection Bureau (CFPB) is expecting to see a decline in mortgage originations, driven primarily by reductions in refinancing. He noted that outstanding credit card balances are beginning to increase. He also stated that the CFPB is aware of the motor vehicle chip supply shortage and the related impact on new and used auto sales and loans.

Acting Chairman Gruenberg thanked Director Chopra for his remarks. He then recognized Ms. Eberley to proceed with moderating the program.

Community Banking Conditions

Ms. Eberley thanked the Acting Chairman and Director Chopra. She then turned the meeting over to the Committee members for a roundtable discussion of local banking trends and issues. The community bankers discussed a broad range of topics, including the following:

Economic Conditions.

Members discussed inflation and supply chain challenges. Member Mjartan noted that the underserved and historically disenfranchised, disconnected communities, which are particularly communities of color, face unprecedented difficulty in accessing credit and capital due to rising interest rates and inflation. Member Oldner observed that the underserved, unbanked, and the disadvantaged are hurt the most by inflation and borrowing costs, particularly credit card costs. Member Maust said that as credit card balances become elevated, that will increase inflationary pressures, fiscal strain on households, and the potential for defaults. He noted that a year ago, inflation could be tied to the reopening of the economy, but since then, inflationary pressures have broadened and remain more persistent than expected. He also observed that supply chains are not broken but are overloaded due to high consumer demand.

Almost all members described labor shortages. Member Maust identified tight labor markets as the biggest constraint on the economy and growth. Member Messerschmitt described tremendous competition between businesses for hiring, and Members Bock and Messerschmitt observed that people are changing jobs because there are many opportunities. Member Bock noted that due to labor shortages, dairy production plants are reducing production and thus purchasing less milk from farmers. He also said that labor is a challenge for opening resorts for summer recreation. Member Horvat indicated that restaurants and hotels are having difficulty filling positions.

Members discussed elevated housing costs and low inventory. Member James observed that housing availability and affordability continue to worsen in both urban and rural markets in Georgia. Members Horvat, Lowry, McCurry, Messerschmitt, and West reported that low inventory has increased prices. Members Bock and McCurry noted rents have risen, and Member Pilarski stated there is a shortage of rentals. Member West indicated that increased housing costs are pricing out local residents. Member Pilarski said that with agriculture doing well, no one wants to turn agricultural land into housing. Members Messerschmitt and West reported that a lack of inventory, fewer loan refinancings, and the rising interest rate environment have significantly slowed residential mortgage lending.

Members Bock, Johnson, Osterbuhr, and Narvaez described increased housing construction. Members Bock, James, Johnson, Lowry, McCurry, and Messerschmitt observed that construction costs have increased. Member Lowry indicated that robust construction has not kept pace with demand for homes. He further noted that housing shortages have contributed to labor shortages since workers are unable to relocate.

Members reported on commercial real estate lending activity. Member Horvat expects commercial real estate lending to continue to be strong for the rest of 2022. He noted growth in the apartment, warehouse, and self-storage segments. Member Narvaez reported robust commercial real estate loan demand in multiple sectors, including warehousing, hospitality, and land development. Member James observed an increase in loan demand for community facilities and distribution facilities.

Members reported varying levels of commercial lending activity. Member West indicated that commercial loan demand has been above expectations, but he expects it will decrease in the third and fourth quarters as interest rates increase. Member Bock expressed an expectation that commercial businesses will have a higher utilization of lines of credit due to suppliers tightening payment terms and raising prices. Member Mjartan reported strong interest in small business growth due, in part, to customers exiting traditional employment during the COVID-19 pandemic to pursue entrepreneurship. In contrast, Member Messerschmitt noted that commercial loan growth remains subdued with businesses remaining cautious.

Regarding agriculture, members described rising input costs and commodity prices. Member Johnson indicated that prices for seed, fertilizer, fuel, and rent have increased, with some prices tripling. Members Reigelsberger and West noted increases in the price of hay used by cattle farmers. Members Oldner, Reigelsberger, and West observed that prices for farm equipment, including tractors, have increased. Members Johnson, Messerschmitt, Osterbuhr, and Pilarski described increases in farmland prices. Member West said the price of land has increased so much that it is a barrier to entry for agriculture.

Several members described strong commodity prices, with Members Pilarski and Reigelsberger noting that grain farmers have more cash to deposit with banks. However, Member Oldner said that even though commodity prices are up, it is not enough to keep up with increases in input costs. She observed an increased demand for crop loans as farmers need to finance their production. Member Pilarski identified the Farm Credit System as the main competitor for agriculture banks and expressed concern that Farm Credit has an unfair playing field given that their source of funding, structure, and rules are different.

Banking Conditions.

Members reported strong banking conditions in their institutions and local markets, but they expressed varying views on whether such conditions will continue.

Members reported strong levels of capital. Member James reported that Tier 1 capital is at its highest level ever. He also noted that his bank anticipates receiving additional capital this year from the U.S. Department of the Treasury's Emergency Capital Investment Program. He added that this new capital is greatly needed, because the pandemic exposed the continued systemic need for capital in minority and low- and moderate-income communities. Member Johnson reported that with high deposit balances, leverage capital ratios are a little stressed.

Members Narvaez, Horvat, Mjartan, and Pilarski reported strong, even unprecedented, asset quality. Member McCurry indicated there are no negative trends such as increasing past dues that would cause concern. Member West reported favorable asset quality but expressed concern about the future. Similarly, Member Oldner reported that Arkansas banks have good asset quality indicators, but she is cautious and watching the health of borrowers. Member Bock noted that while current credit quality standards are very good, business customers face challenges such as labor shortages, supply chain issues, inventory availability, and costs. Member Osterbuhr added rapidly rising interest rates as a challenge. Members Reigelsberger and Messerschmitt shared similar comments.

Members reported varying levels of loan demand and growth. Members Johnson, Lowry, and Osterbuhr reported an increase in loan demand. Member James reported an increase in loan demand, but noted that it is not at the level that his bank would like, especially with regard to the quality of loan requests. Member McCurry reported that loan demand continues to be consistent. Member Messerschmitt reported limited loan demand in her bank’s area, resulting in 40 percent of assets in the investment portfolio. Member Bock reported slow loan growth in the first and second quarters, but added he expects it will increase in the second half of the year. Member Horvat reported record loan growth.

Members reported varying levels of profitability. Member Horvat referenced record net income. Members Narvaez and Osterbuhr noted improving net interest margins. A number of members reported net interest margin compression. Members Bock, Lowry, and Narvaez indicated they expect their net interest margins to improve as interest rates rise and loans re-price. Members Oldner and West said non-interest income has declined.

Members reported on liquidity and deposit growth. Members James and Messerschmitt reported having extremely high liquidity. Member Osterbuhr noted that deposit growth has been very good. Member Horvat observed that deposit growth has continued, but not at the same level recognized over the last several years. Members Lowry and Bock indicated that deposits have stabilized after years of rapid growth.

Members discussed overdraft fees. Member Johnson referred to the FDIC's recently issued Consumer Compliance Supervisory Highlights publication, which addressed additional non-sufficient funds fees assessed for the same transaction that was re-presented on one or more occasions after the transaction was declined. She indicated that her bank is searching for an effective method to address this, but she noted that several core processors, including her bank's core processor, have stated that they are unable to provide reports to assist with this. She encouraged the FDIC to support banks as they work with core processors to obtain the data and resolve this issue. Members Horvat, James, Narvaez, and Pilarski addressed customer overdrafts and indicated that customers often use them to meet liquidity shortfalls. They emphasized the relationship that community banks have with their customers. Member James encouraged regulators and Congress to evaluate overdraft fees in a nuanced way and consider how they are being used in communities.

Examinations and Technical Assistance.

Members discussed their recent experiences with FDIC examinations. Members Osterbuhr, Pilarski, and Oldner had virtual examinations. Members Pilarski and Oldner expressed a preference for a hybrid format. Member Pilarski indicated there were technical issues with the virtual examination and acknowledged the benefits of face-to-face conversations for the loan portion of the examination. Member Oldner advised that a hybrid format would enable better understanding of a bank's culture and would improve communication.

Member James described receiving technical assistance from the FDIC. The technical assistance related to a planned partnership with a Fintech company around consumer lending as well as how to construct the Community Reinvestment Act (CRA) assessment area as the bank expands its service territory. Member Reigelsberger expressed appreciation for the March compliance newsletter, which will be used to train bank staff.

Innovation and Technology.

Members discussed relationships and competition with financial technology companies. Member West observed that Fintechs are making headway into consumer lending because they offer technologically superior solutions, and it is challenging for small banks to invest in the IT infrastructure to compete. Member Mjartan described partnerships with Fintechs as a way to deliver services more efficiently, develop more responsible and responsive products, meet the needs of communities better, and bring banks closer to customers. Member Maust expressed support for the FDIC's proactive approach to provide initial guidance on third-party service providers, particularly in technology. He encouraged the FDIC and CFPB to support community banks as they provide such guidance to marketing and other partners.

Member Oldner expressed concern that cryptocurrency is supplanting more traditional payment systems and reducing deposits at banks, which ultimately limits opportunities to meet the lending needs of local communities. Member Messerschmitt expressed support for the CFPB to examine non-bank financial service providers to determine if their activities result in unfair, deceptive, or abusive acts and practices that could cause a risk to consumers. Director Chopra agreed with Member Messerschmitt’s comment that non-bank oversight is important to ensure there is a level playing field, and he added that the non-bank supervision program is going to be an increased focus for the CFPB.

Other Topics.

Members expressed concerns about fraud. Member Bock indicated that business customers have been exposed to scams due to systems that lack appropriate information security. Member McCurry said that in addition to protecting customers’ money and information, cybersecurity now encompasses defending against hostile countries attempting to incapacitate industries. Member Johnson observed that fraud is on the rise and happens in streaks, but remains an everyday event. Member Messerschmitt noted fraud is an increasing challenge, and she stated that the increased use of online banking has made elderly customers more vulnerable.

Members James, Johnson, and Narvaez discussed acquisition activity at their institutions. Members Johnson and Reigelsberger expressed support for the FDIC modernizing the CRA to accurately reflect digital services. Member Horvat suggested that community banks be included in discussions about potential climate change regulation. Member Oldner expressed concern about the unintended consequences of climate-related disclosures.

Following the extensive dialogue, Ms. Eberley thanked the community bankers. She called for a short recess and, accordingly, the meeting stood in recess at 3:28 p.m.

Small Business Lending Survey

The Committee reconvened at 3:40 p.m. Ms. Eberley introduced Philip Shively, Deputy Director of Research and Regulatory Analysis, Division of Insurance and Research (DIR), and Yan Lee, Senior Financial Economist, DIR, to discuss the Small Business Lending Survey.

Supervision and Policy Update

Next, Ms. Eberley introduced several FDIC staff members from RMS to provide the Committee with updates on supervision and policy matters involving crypto activities, the FDIC's climate change initiative, cybersecurity, and implementation of the current expected credit losses (CECL) methodology. Ms. Eberley also introduced FDIC staff members from the Division of Depositor and Consumer Protection (DCP) to discuss the Spring 2022 Consumer Compliance Supervisory Highlights publication.

Crypto Activities.

Rae-Ann Miller, Senior Deputy Director of Supervisory Examinations, RMS, provided a briefing on a financial institution letter encouraging notification to the FDIC of supervised institutions' planned or existing engagement in crypto-related activities. She shared risk considerations regarding safety and soundness, consumer protection, and financial stability.

FDIC's Climate Change Initiative.

Bobby Bean, Deputy Director of Capital Markets and Accounting Policy, RMS, provided a briefing on the FDIC's initiatives with respect to the financial risks associated with climate change.

Following this update, Ms. Eberley noted that Director Hsu had joined the meeting.

Cybersecurity.

Martin Henning, Deputy Director of Operational Risk, RMS, provided an update on cybersecurity.

Implementation of the CECL Methodology.

Shannon Beattie, Chief Accountant, RMS, provided an update on the implementation of the CECL methodology.

Consumer Compliance Supervisory Highlights Publication.

Chris Finnegan, Senior Deputy Director of Compliance and CRA Examinations, DCP, and Tara Oxley, Associate Director of Compliance and CRA Examinations, DCP, discussed the Spring 2022 Consumer Compliance Supervisory Highlights publication that the FDIC issued in March.

At the conclusion of the presentations, Member Oldner responded to a call for questions by remarking that although the members had not asked questions following each presentation, she believed that all did take great interest in the topics and would follow up as needed. Member Oldner added that the information covered was relevant and appreciated.

Ms. Eberley thanked the FDIC staff members for their reports and Committee members for their thoughtful dialogue and insights. She then turned the meeting over to Acting Chairman Gruenberg for his closing remarks.

Closing Remarks

Acting Chairman Gruenberg thanked Ms. Eberley and all Committee members for taking the time to participate in the meeting. He expressed his hope to return to in-person meetings in the fall, as he believes that in-person interactions help in the overall engagement and exchange between members and the FDIC.

The Acting Chairman then took a moment to thank Teri Messerschmitt, President and CEO of South Ottumwa Savings Bank, Ottumwa, Iowa, whose term is expiring in July, for her service and commitment to the Committee. On behalf of everyone at the FDIC, Acting Chairman Gruenberg expressed appreciation to Ms. Messerschmitt, sharing that the FDIC has benefitted greatly from her contributions and is looking forward to further engaging with her in other capacities.

Lastly, Acting Chairman Gruenberg thanked staff for presentations and all of the community bankers for their input, which he indicated was enormously helpful in giving the FDIC a meaningful snapshot of what is happening at community banks across the country.

There being no further business to discuss, Acting Chairman Gruenberg adjourned the meeting at 4:50 p.m.

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

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

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Martin J. Gruenberg
Acting Chairman
Board of Directors
Federal Deposit Insurance Corporation