The Meeting of the Advisory Committee of State Regulators

of the

Federal Deposit Insurance Corporation

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation Via Webcast

October 14, 2020 – 1:00 P.M.

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

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

Ray Grace, Commissioner of Banks, State of North Carolina, was absent from the meeting.

Director Martin J. Gruenberg attended the meeting, and Corporation staff who also attended the meeting included: James L. Anderson, Bobby R. Bean, Shannon M. Beattie, Rebecca Bittle, Alys V. Brown, Kymberly K. Copa, Chad R. Davis, Doreen R. Eberley, Bret D. Edwards, Diane Ellis, George French, Jasa J. Gitomer, Patricia S. Gurneau, Emerson B. Hall, Leon Hartley, Martin D. Henning, Arleas Upton Kea, M. Anthony Lowe, Christopher Lucas, Brandon Milhorn, Rae-Ann Miller, Arthur J. Murton, Shayna Olesiuk, Elizabeth Ortiz, Mark E. Pearce, Harrel M. Pettway, Nicholas J. Podsiadly, Jon Pogach, John Rieger, Lisa K. Roy, Camille C. Schmidt, Mike Shaheen, James P. Sheesley, John F. Vogel, and Kenneth J. Weaver.

Chairman Jelena McWilliams opened and presided at the meeting. Chad R. Davis, Deputy to the Chairman for External Affairs and the Committee’s Designated Federal Officer, moderated the proceedings.

Introductory Remarks

Chairman McWilliams opened the meeting by welcoming the Committee members from across the country. She stated the FDIC is looking forward to a robust conversation and noted the last year has been unprecedented due to COVID-19 and its effects on the economy. She added that she welcomed any input and recommendations the Committee has for the FDIC as we move forward in these challenging times.

Chairman McWilliams then introduced Mr. Davis who moderated the meeting. Mr. Davis invited opening comments from Director Martin Gruenberg, who responded by stating he views the Committee as an opportunity to share perspectives and that he was looking forward to hearing about how the different states and institutions were responding to the pandemic.

Mr. Davis then welcomed the Committee members and noted that he looked forward to working with the Committee members.

Discussion of State Banking Conditions

Mr. Davis introduced a roundtable discussion of state banking conditions. The Committee members discussed a range of issues, including the following:

COVID-19 Pandemic. Every Committee member described the COVID-19 pandemic's impacts on their respective state economy, banking industry, and banking department operations. Though specific effects and responses are covered in the following paragraphs, the topic is mentioned first as it permeated the entire discussion. Members told of varied experiences with the arrival and current course of the pandemic in their states. Members expressed the view that the pandemic would remain a dominant factor for the foreseeable future, with special concern for recent spikes in rural areas and the onset of winter weather. The consensus was that the states' banking institutions are managing the pandemic and its impacts well, taking prudent steps to protect and serve their communities, customers, and employees during this unprecedented threat to physical and financial health. Commissioner Gonzales noted that banks play the role of "economic first responders" in economic emergencies, with Commissioner Gallagher referencing Chairman McWilliams's recent comments that community banks had "punched above their weight" in this regard. Similarly, the members reported that, as regulators, they had adapted to meet the demands posed by the new conditions – noting the assistance from the FDIC and the Federal Reserve Board in coordinating regulators' operational response.

Economic Conditions. Most Committee members expressed cautious optimism despite the considerable challenges presented by the pandemic, noting the sound economic conditions prevailing upon its arrival and the success of federal and state stimulus programs designed to combat its economic effects. Several members reported that state unemployment rates were at historic lows prior to the onset of the pandemic, with rates increasing significantly thereafter. These members described the unemployment situation as generally improving after that initial jobless spike, though none reported a full employment recovery. One member expressed that such a recovery is unlikely prior to 2022. Nearly all members praised federal stimulus responses such as the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and the Paycheck Protection Program ("PPP") as having a positive effect on their state economies. Similarly, four Committee members highlighted state stimulus programs, including those distributing federal CARES Act funds, as important parts of the pandemic response.

Members advised that the impacts of the pandemic-induced recession were not evenly distributed within their states, on both a sector and geographic basis. On the sector basis, members reported that housing remained strong and manufacturing had largely recovered, while hospitality was often severely impacted. Director Fite described the effects of widespread slowdowns in business travel. He noted the shutdown of the Indiana Convention Center and the impact on the hospitality industry in his state's capital. However, Director Afdahl and Commissioners Hall and Leary commented on the sector's support from increased domestic tourist travel in the summer – especially to rural areas and national parks. Commissioner Salazar noted that the increased telework during the pandemic raised questions about long-term urban commercial real estate performance. Director Afdahl reported that the agriculture sector benefitted from an "unsustainable" level of direct federal support during the pandemic and that the next year could be one of the more challenging ones. Commissioner Kruse noted that the difficult agriculture conditions in the prior year had distressed some borrowers in her state, but that the banks themselves were managing well and that overall trends are positive. Similarly, other members noted that recent low oil and gas prices posed problems for that industry, but well-diversified banks did not suffer from excessive direct exposure. Finally, several members noted that different regions within their states had different experiences thus far in the pandemic, with rural areas benefitting from lower infection rates early in the crisis and increased domestic tourism in the summer.

Some members called attention to uneven, and sometimes insufficient, state government revenues. Commissioner Hagler noted that the stimulus-driven recovery helped avoid an expected multibillion dollar shortfall in his state, while Commissioner Thompson said that a rebound in state revenues attributable to improving oil and gas prices and increased sales tax receipts is arriving too late to prevent a shortfall in this budget year. Many members noted that stimulus spending, while effective in combatting the pandemic recession, complicates analysis and forecasting and creates uncertainty about future performance after stimulus funds are exhausted. Some members suggested that additional stimulus programs are in order. Further, a few members said that implementing the loan forgiveness component of PPP was now an important part of that program.

Banking Conditions. Committee members were uniformly positive regarding banking conditions prevailing in their states. As with the general economic conditions, members attributed this to the health and "robust" capital positions of banks going into the crisis as well as the stimulus programs' effectiveness. Members noted that PPP resulted in significant asset and deposit growth, with Superintendent Allard and Commissioner Gonzales noting significant asset growth beyond that attributable to the stimulus programs. Director Fite expressed concerns regarding interest rate risk. Members commented positively on bank loan portfolio management in the pandemic, both in originating new loans under the PPP and working proactively with deferrals, modifications, restructurings, and fee waivers to assist customers. Members described bank management as "having a good handle on their loan books" though some are "frustrated and exhausted" in dealing with the pandemic's effects.

As evidence of the overall health of the banking environment, two members described de novo activity in their states with one recent bank opening reported. Members also described merger and conversion activity within their states. No member reported a significant uptick in problem bank numbers, with several reporting either no problem banks or a record low number of problem banks within their states.

Supervision and Regulation. Members' discussion of supervisory activities focused on the transition to remote examination and telework for staff. A few members described pausing examination activities in March to allow bank management to focus on responding to the pandemic, with many members saying that exams are now conducted exclusively on a remote basis since the spring. Member Ryan observed that this transition to remote examination had occurred "seamlessly" and credited this success to the cooperative efforts of state and federal regulators. Many members echoed his comments regarding the FDIC and other federal regulators' national and regional efforts to coordinate the transition to remote examination and the other supervisory responses to the crisis. A member expressed concerns about the ability to successfully train and transfer knowledge to new examiners without some onsite work experience.

Many members expressed appreciation for the federal guidance on working with customers affected by the pandemic and on the regulatory impacts of the stimulus programs on bank capital and accounting. Commissioner Gonzales noted that banks have requested that PPP loans be excluded from regulatory asset threshold calculations to avoid burdening them with additional costs as a result of participation in these programs. Members encouraged the FDIC to continue its consistent, transparent efforts to provide guidance on responding to the pandemic.

The discussion covered other, longer-term regulatory matters. Commissioners Gallagher and Leary discussed the Community Reinvestment Act and noted their attention to potential changes to related regulations, with Commissioner Leary urging that the federal regulators maintain a consistent approach that does not result in disadvantage to state banks. Commissioner Leary also expressed support for the Bank Services Company Examination Coordination Act.

Other Topics. Commissioners Gallagher and Leary commented on the risks associated with climate change and suggested possible future discussion by the Committee, with Commissioner Leary noting that weather and natural disasters have affected "every day and banking life" in his state this year. Several members mentioned the diversity and inclusion activities of their banks and the beneficial effects on the communities they served, with Commissioner Gonzales highlighting his department's efforts to support two significant minority depository institutions in his state. Similarly, Commissioners Gallagher and Holstein outlined their state efforts to facilitate FinTech development in their states by providing sandboxes and ecosystems for collaboration among banks, vendors, and other entities. Lastly, Commissioner Holstein mentioned efforts to work with banks in response to new marijuana legislation in her state.

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

Following this discussion, Mr. Davis announced that the meeting would briefly recess. Accordingly, the meeting stood in recess at 2:38 pm.

Community Bank Consolidation

The Committee reconvened at 3:02 pm. Mr. Davis introduced George French, Senior Advisor, DIR, and Jonathan Pogach, Chief, Financial Modeling & Research Section, DIR. Mr. French and Mr. Pogach made a presentation on community bank consolidation. Mr. Pogach also discussed the FDIC Academic Challenge, a team competition for undergraduate students.

Director Afdahl asked whether a map referenced in Mr. French’s program is available on the FDIC website. Mr. French agreed to look into this further. Director Afdahl also suggested further research into the relationship between the rates of agricultural borrower growth and the growth of the lending limits of the institutions that serve them. Mr. Pogach noted that the paper being discussed didn’t cover this issue, but that it’s an interesting point. He also referred to a report of the Federal Reserve Bank of Kansas City on a similar topic.

Member Ryan expressed support for the FDIC Academic Challenge and asked about research on the community impacts of bank closings. Mr. Pogach provided responses regarding the existing work and data limitations.

Rapid Prototyping Competition and Request for Information on Proposed Voluntary Certification Program to Promote New Technologies

Next, at Mr. Davis’s invitation, Deputy to the Chairman and Chief of Staff Brandon Milhorn discussed two FDiTech initiatives: the solicitation of public input on the potential for a public/private standard-setting partnership and voluntary certification program to promote the efficient and effective adoption of innovative technologies at FDIC-supervised financial institutions; and the rapid prototyping competition to help develop a new and innovative approach to financial reporting.

Commissioner Hall inquired about feedback on the rapid prototyping competition and described her experience with data obtained in supervision of non-bank mortgage companies. She also asked about the size of the banks involved in the competition.

In response, Mr. Milhorn reported that experience with vendors had been positive and he was confident that the efforts were proceeding in the desired direction. He also stressed the distinctions between the "early warning" focus of the competition, versus the accounting-based, GAAP compliant Call Report. He noted, though, that the prototyping competition could teach lessons that might allow innovation in Call Report requirements, and could provide for a reduction in burden that would justify bank involvement in the new approach. Mr. Milhorn indicated that the initiative focuses on community banks of all sizes.

State-Federal Coordination

Mr. Davis then introduced Doreen Eberley, Director, RMS; Rae-Ann Miller, Associate Director, Risk Management Policy Branch, RMS; and John Vogel, Deputy Director, Operations Branch, RMS. Ms. Eberley made a presentation on changes to FDIC supervision programs in response to the pandemic. Ms. Miller described examination policy changes in response to the pandemic. Mr. Vogel covered FDIC training in the mandatory telework environment.

Commissioner Leary asked Mr. Vogel to identify practices used to replicate the apprenticeship aspect of examiner training. Mr. Vogel responded that training days and using scanned documents in a collaborative environment to train examiners remotely has been successful.

Commissioner Thompson asked whether the FDIC has a schedule for resuming onsite examinations and whether there has been more dialogue regarding sending contractors into institutions to scan files. Ms. Eberley responded that there is no current schedule to return to onsite examinations, but the FDIC is planning for an eventual resumption. In response to the second question, she stated the FDIC is considering various options of how to scan documents so we can conduct examinations.

Director Afdahl shared that there appears to be a difference across regions in how FDIC examiners are treating classified assets and exclusions to classification in particular relating to agricultural assets and noted that this should be an area for future discussion. Ms. Eberley responded that the FDIC is working on addressing where additional guidance and instructions are needed for examinations with the Federal

Financial Institutions Examination Council Task Force on Supervision.

Commissioner Hagler asked whether the FDIC is hiring entry-level examiners or current and retired examiners and how that affects the onboarding and training process. Ms. Eberley shared that the FDIC primarily hires entry-level examiners, and that the FDIC is attempting to use available tools to try to facilitate camaraderie building among the examiners.

Update on Financial Inclusion Efforts

Mr. Davis then introduced Elizabeth Ortiz, Deputy Director, Consumer and Community Affairs, Division of Depositor and Consumer Protection ("DCP") and Emerson Hall, Associate Director, Community Affairs, DCP. Mr. Hall delivered a presentation on the FDIC's efforts to improve financial and economic inclusion. Then Ms. Ortiz made a presentation on the FDIC's consumer outreach efforts.

Closing Remarks

Following the presentations, Mr. Davis invited Director Gruenberg to make closing remarks. Director Gruenberg shared that he appreciated the participation of the Commissioners and that he valued the comments they shared. He stated that there seems to be a high level of uncertainty going into 2021, so the relationships between the federal government and the states will be critical.

Chairman McWilliams thanked the Committee members and the FDIC staff for their participation. She stated that the FDIC could not do its work without the States' efforts on the ground and that the States are a valuable tool to help the FDIC serve communities and think about the system holistically. Chairman McWilliams shared that she missed meeting with the state commissioners in person during her state visits and that she looks forward to working with them in the future.

Having no further business to discuss the meeting was adjourned at 4:53pm.

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

Minutes

of the

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

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Jelena McWilliams
Chairman
Board of Directors
Federal Deposit Insurance Corporation