

FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE OF STATE REGULATORS

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MEETING

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WEDNESDAY,
OCTOBER 14, 2020

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The Advisory Committee convened at 1:00 p.m. EDT via Video Teleconference, Jelena McWilliams, Chairman, presiding.

PRESENT:

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

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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

MICK THOMPSON, Commissioner, Banking Department,
State of Oklahoma

FDIC PRESENT:

JELENA MCWILLIAMS, Chairman

MARTIN J. GRUENBERG, FDIC Board of Directors

DOREEN EBERLEY, Director, Division of Risk
Management Supervision

GEORGE FRENCH, Corporate Expert & Senior Advisor,
Division of Insurance and Research

EMERSON HALL, Associate Director, Community
Affairs, Division of Depositor and Consumer
Protection

BRANDON MILHORN, Deputy to the Chairman & Chief
of Staff

RAE-ANN MILLER, Associate Director, Risk
Management Policy Branch, Division of Risk
Management Supervision

SHAYNA OLESIUK, Associate Director, National &
Regional Risk Analysis Division of
Insurance and Research

ELIZABETH ORTIZ, Deputy Director, Consumer and
Community Affairs, Division of Depositor
and Consumer Protection

JONATHAN POGACH, Chief, Financial Modeling &
Research Section, Division of Insurance and
Research

CAMILLE SCHMIDT, Chief, Emerging Issues Section,
Division of Risk Management Supervision

JOHN VOGEL, Deputy Director, Operations, Division
of Risk Management Supervision

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

1:06 p.m.

CHAIRMAN McWILLIAMS: Good afternoon, and good morning as the case may be since we have members from throughout the United States. Welcome to our meeting. And frankly, I apologize. We were supposed to meet sooner. We were trying to organize this committee meeting a long time ago. And unfortunately, events have superseded us.

It's good to see you here today. We look forward to a robust discussion. To say that this year has been unprecedented would be an understatement as all of you know, dealing with your banks on the ground in your individual state, how challenging the last six or seven months have been with the outbreak of the coronavirus pandemic and the related business closures throughout the United States.

So I would say it's very timely to have you here today. We look forward to hearing

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what you have to say and certainly hearing any input and recommendations you may have for the FDIC moving forward in these challenging times. With that, we can begin today's committee meeting, and I welcome you all on board.

MR. DAVIS: Thank you, Chairman. I will be emceeding the meeting today. Before I get started, Director Gruenberg, did you have anything you wanted to add?

DIRECTOR GRUENBERG: Thank you, Chad. Only to say I think it's a terrific opportunity for all of us to get together and share our perspectives here. It's been a long few months, so I'll be most interested in hearing what you're seeing in your states and how your institutions are doing. So I just want to thank you all for taking part in today's meeting and thank the Chairman for hosting it.

CHAIRMAN McWILLIAMS: Thank you, Marty.

MR. DAVIS: Thank you. And with

that, we will get started. I would like to add my welcome and thanks to all of you. I've enjoyed talking with each of you as we put this together and look forward to this meeting, even if it is a few months late, to kick off this committee that I look forward to working with.

We're going to start this afternoon by turning to the committee members for a discussion about trends and issues related to the banking environment and the conditions in their states. After we've heard from committee members, we've also asked some of our FDIC staff members to discuss their observations. Shayna Olesiuk, Associate Director, National and Regional Risk Analysis from our Division of Insurance and Research, is going to go over some observations about the national economy and banking trends.

We also have Camille Schmidt, Chief of Emerging Issues Section in the Division of Risk Management Supervision. Camille is going to discuss trends in the risk management practices.

I'd like to start our committee member discussion with Kevin Hagler from the State of Georgia who will be followed by the other committee members. Kevin, please go ahead.

MEMBER HAGLER: It's an honor to be part of the program and part of the Board today. Thanks for pulling this event together. I sort of been looking forward to it and have been for quite some time. It's probably a fairly consistent theme amongst all of us today.

But for us and for me, one of the challenges has been the stimulus money that's been involved. And I say challenge in that it's hard to really read the tea leaves as to what's happening in and around me. But it's a good problem to have.

The governor's office was predicting billions of dollars in decreased revenue for the state in terms of tax collections and things as we were going into the pandemic based on the closures and things of that nature. And just

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looking at some of the most recent financial information that the state's put out, gross sales taxes for the first quarter of the state's fiscal year, so July 1 through September 30th, the sales taxes are up 4.2 percent. Individual income taxes are up 11.2 percent.

Alcohol and tobacco sales are up. Gas collections are slightly down and the hotel/motel taxes are down 29 percent. So I think that's the biggest anomaly that we're seeing. But really just comparing the month of September to the prior year, I think we're up 6 or 7 percent.

So obviously based on that, the stimulus money seems to be having a very positive effect. I guess what keeps me up at night is how long that'll continue. And when that stimulus money kind of runs its course, what do we wind up with?

Being the ever pragmatic regulator, trying to take a look at my portfolio to see if there's any indications there, again, I don't

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think we've had anything in the way of downgrades for the institutions other than the occasional CAMEL component here and there, but nothing that really would lead me to a trend. I've tried taking a look at asset quality in particular with the loans that have been identified by the banks, of course, that are currently identified as classified loans or assets. But also taking a look at what else they've either done some kind of modifications with or restructuring or deferments, anything of that nature.

And while it would not be appropriate to classify those, of course, just taking a worst case scenario, what if we did consider those to be classified assets? And even doing that with a fairly small sample, let me preface it with that, you know, really, that kind of small sample of banks that I looked at, that really just moved asset quality into the needs improvement category, and even then, only moderately or mildly. So these would give the impression that

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a problem would be something that could be easily worked out during the regular course of business.

So again, not sure that's really worth much in terms of an observation. But just trying to figure out something to get a look at that's going forward. In terms of, like I said, with tax revenue being up, banks actually looking fairly solid right now, trying to -- this theme of things starting to feel a little more normal, I have attended two industry events in person in recent history.

I'm not going to say that that was really probably the best idea. But it did seem a little more normal to be around other people in person that I'm not related to. So that was a nice break. But again, it may have been a little early for that, but it does give this feel that things are starting to move back in the regular direction.

And then kind of end on another good note is this afternoon at 4:00, my staff is

attending a Board meeting for a de novo bank that has finished their capital raise and I think are going to open up on the 19th of this month. So that's a victory for us and the colleagues there at the FDIC. And then we've got another de novo bank that has quickly raised capital and will be close on the heels of the one opening up soon.

So like I say, things look good right now. Knocking on as much wood as I can find to make sure that I don't jinx things. But those first impressions are the stimulus money and things of that nature are working and helping. So in the interest of time, I'll stop there and be happy to talk more later if I'm called upon.

MEMBER KRUSE: So I'm Lise Kruse. I'm the commissioner in North Dakota. Thank you for establishing this Advisory Board and showing your willingness to hear our stories from the various parts of the country. Representing a rural state, I appreciate the opportunity to share how our banking industry is doing at this

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time.

The biggest driver of the North Dakota economy is the agricultural industry. We had a tough year last year with lots of flooding. But although there are some distressed borrowers, our banks have actually done pretty well across the board with minimal impact to their overall condition. And the latest data from USDA is indicating that crops are close to or ahead of historical averages. So this year should, by far, be better than last year.

Oil and energy is another area with impact in our state. And although the price per barrel is up and production is up, there's still volatility in this area. Our banks are not directly involved in exploration. It is more on the supporting businesses.

And the banks with this indirect exposure have well-diversified portfolios. And so the overall impact on their condition is manageable. Although the impact of unemployed

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workers across the state is yet to be seen. That's where we have seen maybe the biggest change in our state because our unemployment was one of the lowest in the nation for a long time.

In March, it was at 2 percent, and that drastically increased to 9.1 percent in April and May. In September, it was back down to 5 percent which was lower than the national rate of 8.4. The biggest concern I would say for our banking industry has for a while been multi-family and hotels.

The hospitality industry has, of course, intensified the pressures they've endured due to COVID with the travel and tourism hit hard. We noticed that the Canada border is closed. But our state has not shut down. Businesses have remained open.

And then combined with low contagion of the virus over the summer, we did see some tourism. Not just in-state travel, but it seems like this is the year that people wanted to visit

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North Dakota. So the June statewide hotel occupancy rate, although it was down, it was still at 40 percent, and that's compared to 66 percent in June 2019.

So obviously, tourism slows down for us during the winter months. So the hospitality industry will continue to experience pressures. Specific to help our economy in response to COVID-19, our state's commerce department has administered an economic resiliency grant for businesses to help with costs associated with improvements to their business for the purpose of reducing the spread of infection and instilling consumer confidence in the marketplace.

Also, the Bank of North Dakota is administering two programs in partnership with banks also. And those are -- one is a low interest loan program and one interest buy-down program. All of these programs help alleviate pressure on borrowers and our banks.

Again, any of our banks with exposure

to any negatively affected commercial loan or commercial real estate sector are well diversified. And recent examination results indicate that concentrations are well monitored and mitigated and loan portfolios are well managed. Right now, as Kevin said, it's challenging to predict how things are going to transpire over the next few months. But I believe that our banks can weather the storm due to their current health and robust capital position.

As of now, North Dakota does not have any banks on its problem bank list. Our community financial institutions have shown a tremendous commitment to their customers throughout this pandemic. And it's evidenced by the high volume of PPP loans North Dakota financial institutions have issued.

Every day, I communicate with bankers having to balance the safety of employees and customers while closing down lobbies. But

they're still providing essential financial services via drive-up windows and online channels. The strength of a rural community is its local financial institutions which is there for its customers through difficult times.

I appreciate the FDIC's effort in providing clear expectations and guidance to ensure fair and consistent oversight over our community banks. And I hope that this will continue as our banks walk through these challenges. It helps rural communities having access to essential financial services, and I believe that is always best provided by community financial institutions. That concludes my remarks. Thank you.

MEMBER SALAZAR: Good afternoon. I'm Tony Salazar, Commissioner of Financial Regulation for the State of Maryland. And I wanted to also echo the other speakers - if I start my video, of course. I wanted to echo the other speakers and thank Chair McWilliams and the

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FDIC for the opportunity to join with my fellow state regulators for the discussion, particularly during the consequential time that we have now. And I know it's also very challenging.

Normally, the cooperation is very good between the FDIC in our experience in the State of Maryland. And I just would like to comment and thank the Chair and the staff of the FDIC for being very cooperative and communicative. And there has been very good efforts, coordination since the pandemic.

And I think that's really made a difference in helping us at the local level carry out our jobs of communicating with the institutions, giving them a sense of comfort that the regulators were working in conjunction with each other and with one voice. The consistency of messaging is very important. And I think that going forward, one of the recommendations I would have is that we continue with consistency of messaging and consistency with the policies

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that'll kind of ask the banks to work with their customers and their forbearances and go forward with that.

At the start of the pandemic, obviously, there was a lot of uncertainty as to where things were going. And I guess I'd say to a great extent today, there's still that uncertainty in the banking area. But it's tempered at this time with some optimism.

There's a difference now between at the beginning of the pandemic when there were shutdowns and people were uncertain as to where they were going. But Maryland bankers from my interaction and from what I can see have really dealt well with the hands they have been given. Our team reports that in conversations with them, they have a good handle on their loan book and where they identify problems.

So that's always important to us as regulators that the institution knows their own business and knows where they're going. To echo

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some of the comments you heard before, we don't have any institutions as well that are troubled. They're all well capitalized.

Our institutions, I'm proud to say, really stepped up as Commissioner Kruse mentioned in South Dakota, North Dakota that during the pandemic, they provided assistance to community members. They worked hard with the PPP loans, whether it be for their own customers or for non-customers as well. And then they've managed to also protect their employees and keep essential services available. So we were all very happy on all those fronts.

In terms of Maryland itself, we are benefitting right now I think from some of the efforts that the governor took early on in that our positivity rate is low. The number of infections are low which is allowing the state government to slowly and science-based carefully roll back the restrictions that they had put in place. And that is obviously benefitting the

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business community.

We here in Maryland have kind of three different areas, I guess I'd say. We have the western community which is much more rural. And as Commissioner Kruse mentioned, kind of counterintuitively, they did see an increase in people visiting out west, maybe getting away from populated areas. So business was okay there and is expected to continue that way.

The more cosmopolitan center of the state, as you may know and many members of your staff, I'm sure there's a bunch that live here in the state of Maryland, is buoyed by the fact that we have federal government employment. We have a number of fine educational institutions here. So that has helped, I believe, maintain the economic situation to a certain extent.

And the institutions here are, of course, worried about some of the commercial real estate because that has been impacted in the more urban areas with people working remotely as I'm

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doing today. I spent half the day in the office and half the day here, and our office is entirely working remotely. But I do know, as Kevin mentioned, that along with our office and some of the institutions, people are starting to get back to more normal hours working at more institutions. And I think that will be favorably received and help out the banks.

Lastly, we have our shore area which is, again, kind of relying on the tourism industry and reliant on the hospitality. But they have also managed to hold their own. I guess it's a popular destination. We'll see how it goes in the fall.

But overall, the institutions are all reporting that there's a cautious optimism there. I think what you'll find, though, is that is uneven as nationally we'll probably hear about some of the industries that have really been battered and are facing difficulties. It's the same thing with our populations.

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So the folks that were able to work remotely and in the professions, they're probably doing okay. But there is a substantial number of people that were seriously affected by this COVID-19 and many of the frontline workers. And so I guess, to what it's worth, Kevin mentioned that the stimulus was making a big difference and there's been a call. I know our governor and leaders in the Board of Public Works put out a call that an additional stimulus would definitely be welcome. And I think if you speak with our Maryland bankers, they would all agree with that.

So with that, I will end my remarks saying that we are cautiously optimistic here in Maryland that following the science and taking a measured approach has helped us keep infections low. And we believe that that's driving the good economic situation that we're seeing right now. We hope that that will continue. So with that, thank you. Looking forward to the conversations the rest of the day.

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MEMBER HALL: Good morning or good afternoon, depending on where you are. Things here in Montana are not dissimilar in some respects from around the rest of the country in terms of banking. Our banks have been incredibly busy working with their customers, doing PPP, but also some Montana-specific programs that were made possible by CARES Act funds that I want to spend a little time talking about today because I think it's important.

So the state took some of the CARES Act funding and put together a program that would allow banks to work with their customers if the customer could show a 15 percent decrease in revenue in any three-month period, they could then apply through their bank to the state and the state would be willing to use CARES Act funds to pay their interest payments directly to the bank for up to 12 months at 6 percent interest for a total up to 150,000 dollars. So much larger credits there were some individual

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negotiations on.

But this essentially allowed the state to buy some time for customers that were really feeling the impact. And so a 15 percent revenue loss is not tremendous. It allowed us to get a number of people into the program.

And I believe at this point, they spent around 100 million dollars which had the added benefit of sort of helping banks to keep a ton of loans from going on to their problem list and from having an earnings hit all at once from that occurring. So I think it's a really great program that we worked on with the Montana Board of Investments in order to get some of the CARES Act funds out to small businesses. There have also been small business stabilization grants and other programs for ag businesses and other industries around the state.

In addition, I think that Montana banks have had probably a limited impact from COVID because in the very beginning, Montana is

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pretty rural, our numbers were very, very low. And so people from what I call the Sand States, so the states on the outside, sort of flocked to rural America in order to breathe some fresh air and take their masks off and enjoy the outdoors. And so Montana's tourism industry had a pretty successful summer.

Some of the hotels certainly have lower occupancy rates as most people instead of flying here and renting a car instead drove their cars and camped or rented campers and drove out. But a lot of the tourism businesses, restaurants, grocery stores, all of those sorts of things in tourist communities did pretty well through the summer. The impact of that, however, is that everyone brought their COVID with them to Montana, and our numbers are currently spiking pretty significantly.

As we move into the fall and the winter which are always challenging times here in Montana when it begins to snow and everybody

begins to cluster indoors, the state continues to worry about increasing cases, people gathering. The majority of the events that have resulted in sort of the spread have come from people coming into town or from out of state going to weddings and other large gatherings. So we're paying attention to that in addition to the fact that Montana is not known for its oversupply of hospital beds.

And so we are paying particular attention to the numbers and watching what might could happen economically if we have to go back into more of a shutdown going into the late fall here. I mean, I guess it's just early fall in most areas of the country. But we're waking up to freezing temperatures here, so the end of fall and beginning of winter here in Montana.

Banks overall seem to be doing incredibly well from an economic standpoint but are frustrated and exhausted, as I'm sure they are in other parts of the country, and realize

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that there could be some tough times ahead. They are thankfully taking numerous steps in order to prepare for that. Additionally, the exam process with banks has gone off pretty smoothly. We were pretty well prepared to going to doing exams remotely.

And so all of our banks have continued to be on their normal process. And we have just worked with them in order to find a way to make that work. So things here in Montana are getting colder and case numbers are spiking. But overall, the banks are doing exceptionally well. Thank you.

MEMBER GONZALES: Greg Gonzales, Tennessee Commissioner of Banking. Thank you, Chairman, for giving us this opportunity to have this conversation. I really do appreciate it. I appreciate the working relationship with the FDIC.

And I'd also like to thank Regional Director Kristie Elmquist for always working with

us in a great way but in particular during these challenging times. It's very helpful. And while I'm at it, I did want to thank you, Chairman, Kristie, and the FDIC consumer compliance staff that works in Tennessee for what they've done to facilitate small dollar lending in the state. We think this is going to be very helpful to Tennessee's recovery over time.

As far as banking conditions are concerned in the state, the Tennessee banking system is strong. And I really want to start with what Governor Bill Lee and countless Tennesseans have engaged in for months. Governor Lee has focused on health concerns but also created an economic recovery group in the spring to safely reopen Tennessee's economy.

This group created what's called the Tennessee pledge to give guidelines for all businesses, organizations, and for certain activities in the state. The initial goal was to help businesses safely reopen, and there's

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been updates to that to ensure and support healthy communities and open businesses. And this work I believe is going to have a profound positive impact on banking conditions in Tennessee.

The sense that I get in talking to bankers is one of optimism. But just like everyone else, there's a lot of uncertainty and they obviously recognize that. Tennessee bankers continue to fully serve citizens through whatever methods are needed depending on local conditions, including more online banking.

Of course, as you know, bankers stepped up in a big way to push out Paycheck Protection Program funds. Bankers hope for a streamlined process for loan forgiveness. Additional relief for small business is needed with further support, the health of the banking system. In Tennessee, PPP loans amount to about nine billion dollars.

And one of the questions that

Tennessee bankers have raised that I want to pass on to you is that bankers request the exclusion of PPP loans from regulatory asset threshold calculations to avoid the inadvertent and premature push of community banks over certain thresholds, resulting in additional supervision and cost that banks had not yet prepared for. Bankers have told me that in these uncertain times, it could be detrimental to get pushed into a heightened regulatory environment unprepared all because of being first responders in an economic emergency.

A couple of other questions that have been pointed out to me recently. Some banks have raised a concern about the need for more temporary relief from TDR designation credits that continue to be impacted by the pandemic. Broadly, as I'm sure others have received queries just in general about how examiners are going to assess bank efforts during the economic emergency. And in that regard, we're having

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regular conversations with our examiners to see if there are issues that are surfacing out of exams who we look forward to having further conversations with the FDIC and the Fed over time.

As far as the Tennessee banking system as a whole is concerned, one of the biggest challenges and really opportunities for us is dealing with the unprecedented growth that we've experienced in our bank and trust industries. Just in the last few years and really before the pandemic, the bank and trust industry assets under our supervision have quadrupled. And just over the last 12 months, the Tennessee state banking industry doubled due to a large bank conversion to a state charter and a subsequent acquisition by the converting bank.

As a consequence, the department is working through strategic planning to determine what resources and infrastructure is going to be needed in the future. I believe that we're going

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to have the budget support to not only meet our mission but to enhance our regulatory partnership with the industry and with our federal partners. Finally, when I think about banking conditions, I think about banking services, especially to those citizens who may be the most vulnerable in this environment.

Tennessee is home for two historic minority depository institutions, including the oldest continuously operating minority bank in the United States. And the other bank played a historic role in the civil rights movement. I just wanted to let you know that we are enhancing our partnership with these two banks in support of the communities they serve. And thank you again, Chairman, for this opportunity.

MEMBER ALLARD: Good afternoon, Chair McWilliams, Director Gruenberg, and FDIC staff. I'm Kevin Allard. I'm superintendent with the Ohio Division of Financial Institutions. I'm very honored to be named to the inaugural FDIC

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Advisory Committee of State Regulators and to share a little bit of information about banking conditions here in Ohio.

Ohio banks are doing very, very well. Over the last seven months, they've worked very hard, first initially adjusting their operations as a result of the pandemic and then more recently helping their communities and their borrowers in terms of funding PPP loans. In Ohio, we have 114 state-chartered banks with assets totaling 65.8 billion.

Our 114 charters include 6 nondepository independent trust companies. Ohio banks in the second quarter grew by 5.2 billion dollars with 4.1 billion dollars in PPP loans being the main driver in that growth. As I said earlier, Ohio banks are strong at this time. No significant problems or concerns have been noted.

With regard to industry activity, we do continue to see some consolidation, no real increase or decrease in the last 12 months. As

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others have mentioned, we have one de novo bank in the formation stage and we have a second de novo bank application pending. Earlier this year, we approved a conversion of a federally chartered thrift to a state bank.

And we have a second federally chartered thrift that has applied to convert to a state bank that is pending before the division. With regard to financial performance due to PPP loans and deposit growth, the median Tier 1 capital ratio for Ohio banks decreased about 60 basis points to 10 and a half percent at the end of the second quarter. Ohio banks generally are experiencing loan growth, even outside of PPP originations for most institutions.

We have seen a little bit of downturn in terms of return on average assets and net interest margins. Delinquency numbers still remain low. As far as 4013 CARES Act deferrals at the end of the second quarter, Ohio banks had deferred over 15,000 loans totaling about 6.6

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billion dollars. And this represents approximately 96 percent of Tier 1 capital on the loan loss reserve. Through our exam work through the end of the second quarter and anecdotally talking with bankers, it appears that these numbers of deferrals are going to decline significantly in the third quarter.

With regard to our examination posture, we are successfully doing all of our exam work remotely. We have no open examinations at this time, and I don't see this posture changing anytime soon. That is my report. I thank you for the opportunity to participate today, and I look forward to the conversation. Thank you.

MEMBER RYAN: John Ryan, President and CEO of CSBS, and I will keep my remarks brief because I think on this topic, there's a lot more to learn from the Commissioners given their perspective at the local level. And just two things that I wanted to comment on. One is my

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observation from my seat on the resiliency of our financial regulatory system.

We've certainly seen a resiliency among those institutions we regulate, strongly supported as been noted repeatedly by funds through the CARES Act. But our regulatory system really has been resilient in its response to the crisis.

Most had not planned on taking their supervision to a completely remote status, and that has worked fairly seamlessly across the country. And add to that the coordination with our federal counterparts equally as seamless, all things considered. And I think that we came into this, one, with a strong industry, a well-capitalized industry, made it a little easier to move to remote examination status, and that we came into this with really strong relationships with the FDIC and the Federal Reserve in supervising those entities.

Another thing that I wanted to add and

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I know we're going to talk about this later today. But from a CSBS perspective, the states have been focused on technology and the use of technology to support supervision and data to support supervision and a modern approach to supervision. We have had this as part of our strategic plan for quite some time, but it really became a focus in the last year.

And we have been able to quickly deploy resources on the data side to support that offsite examination as well as some -- for those it would assist, some technology resources to support offsite supervision. But I think the discussion that we're going to have later this afternoon on the intersection between data, technology, and supervision and where we go is incredibly well timed. And we probably advanced our efforts in that area in the state system by at least five years by the necessity of functioning in this way.

That closes my remarks. And again, I

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repeat the thanks to you, the Chairman and the Director, for hosting this event. So we really appreciate this, and we appreciate this being the beginning of a good discussion between the FDIC and the states on bank and financial regulation.

MEMBER HOLSTEIN: Good afternoon, everyone. It is a pleasure to be with you here today. I'm honored to be included on this advisory committee, and I thank you, Chairman McWilliams, for the opportunity.

My name is Dawn Holstein. I'm the Commissioner of the Division of Financial Institutions in West Virginia. And the banking conditions in West Virginia are stable, primarily due to West Virginia's economy historically has never been a big boom state. And conversely, it has never been a real bust state either.

However, the economy within West Virginia is quite varied throughout the state. Those more prosperous areas over the last ten years haven't been hit quite as hard by COVID-19

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and have rebounded better than the economically challenged areas of the state. We have a very challenging terrain here within West Virginia, and that has brought some challenges with the transition of business and even our office with many sectors of our state does not have wide span quality broadband.

And there has been a big push within our governor's office to really significantly strategize efforts to making this a priority within the state for homeschooling as well as work from home situations. As far as the economy is concerned, the manufacturing appears to be back to pre-COVID levels. However, hospitality and recreation have not rebounded as quickly. And this is a large portion of the West Virginia business industry.

While the state's recovery from the virus may not be a classic V-shaped recovery, the state has recovered roughly two-thirds of the jobs that have been lost due to COVID-19. And

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kind of the middle of the road outlook is that all jobs should be recaptured by sometime within 2022. So we do have a road ahead of us, of course.

West Virginia is very much a small business state, and West Virginia banks have done a -- just a fabulous job in managing and navigating COVID-19 for these businesses through the PPP programs and providing customers the assistance that they've needed to continue surviving actually. As an agency, we have worked diligently with our institutions to assist them in staying current with the technologies that have been acquired within the financial industry prior to COVID. So many of these technologies were in place and assisted with their abilities to respond and adapt accordingly.

The other few items that the West Virginia Division of Financial Institutions is currently engaged actively in are the newly developed Fintech Sandbox program that was

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approved by our legislature, 2019 last session. And we are currently also continuing to work efforts with -- as our institutions navigate some new marijuana banking legislation of prior years. And that is coming to fruition this past year.

So overall, we are very cautiously optimistic here in West Virginia. Our banks have responded. We've had no particular issues at this point, and we hope obviously that continues. We're prepared for any issues that may arise. But overall, we are doing well.

We appreciate -- I didn't want to leave without saying how much we appreciate the relationship with the FDIC, the transparency, the consistent messaging, the bringing together of all agencies to allow us to unite against the pandemic and make sure that the banking systems across the nation have stayed stable and have really risen to the task of taking care of all of the consumers, citizens, business owners and everything throughout the pandemic. So that's

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about all for West Virginia. Thank you so much.

MEMBER AFDAHL: Hello, Chair McWilliams and everyone else on the call today. My name is Bret Afdahl. I'm the Director of the Division of Banking in South Dakota.

I guess a lot of similar remarks today that you've heard already. I guess I would start with the COVID situation here because I guess somewhat like fashion and movies, sometimes it takes a little bit longer for things like this to -- sometimes it takes a little bit longer.

So with that and the busy tourism season, we're definitely seeing a pretty significant increase in cases. And what that brings to us, I'm not exactly sure from an economic standpoint. Schools and different businesses have had to take varying steps over the last month or so to keep themselves operational.

And on that note, our banks are in pretty good condition, both from a safety and

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soundness perspective but also from an operational standpoint. I think the last information I have, we were down to about six banks that had one or more locations closed to walk-in traffic and doing business by appointment. We've done three rounds of calls to our banks.

And at the peak, I think we had 32 banks that had at least one location closed to walk-in traffic, mainly as a precaution when there was an outbreak in their community. I think as we go forward, we're starting to see and we'll more instances where banks are having to partially or fully close branches because of outbreaks within their staff. So quite a few of our banks have been operating on a two-week on, two-week off basis by splitting their staff. And I think we will be going to that as we move forward.

I think the -- we had all but four of our banks participated pretty heavily in the PPP

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loan program. It was a big lift as some said. And a couple banks, there just wasn't the interest in it locally. And then a couple of banks just were not able to get on. So a significant effort to do that.

As many have said, it is pretty difficult to understand what's going on out there. Our biggest industry in the state is agriculture. And on a national basis, there were 36 percent of net farm income this year was made up of direct payments through the CARES Act and other funding mechanisms.

And obviously, that level of support is not sustainable. And while it provides short-term benefit in stabilizing that industry, it does make it more challenging to understand what's going on out there. But our banks are working through that, and I think the next renewal season starting at the beginning of the year will be one of the more challenging ones. And on top of that, I would say that last year,

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our state led the nation in prevented plant acres.

And this year, we flipped the script, so to speak. I think over 99 percent of our state is abnormally dry, 33 percent is in some level of drought, and 9 percent of the state is in severe drought. So that has had some impact on current year crops, some positive, some negative with reduced production tends to drag the price up a little bit. I think depending on how the winter plays out, it could pose a challenge for next spring.

From a state perspective, our unemployment rate has come back down. We're at 4.8 percent as of August. Still waiting on current numbers. But compared to a year ago, we're still -- we have a ways to go. We were at 3.3 percent in August of 2019.

Like other states, leisure and hospitality have been the most impacted sector. It's down almost 14 percent this year. But we

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did have a pretty robust tourism season all things considered.

And with all the stimulus money, our state revenues were up 8.7 percent year to date through October 9. And some of it's kind of predictable sectors. Some of it's not. I know that video lottery is up quite a bit. Unclaimed property is up quite a bit, and investment income is up quite a bit.

Two sectors that are down or two tax sources that are down quite a bit are a little bit of a head scratcher. The alcohol beverage tax is off by 8 percent, and the alcohol wholesale tax is off by 56 percent. So I guess my uninformed take away from that is that people are drinking more at home and not at bars and saving themselves the money that's costing the state. And travel spending is obviously down quite a bit, 21 percent off here in South Dakota.

Similar to Melanie in Montana, I did want to take just a minute or two to talk about

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a program that's being rolled -- actually, it was rolled out yesterday by Governor Noem and the legislature. They've set aside 400 million dollars of the CARES Act funding South Dakota received for a small business grant program. So it'll have a maximum grant size of 100,000 dollars.

The maximum business size is those businesses with 38.5 million dollars in revenue or less would qualify for the program. And then they must document a 25 percent reduction in cash flow from March to August of this year compared to 2019. It's a lot to do. There's a ten-day application window here because unless something changes in Congress, all of those funds have to be spent by the end of the year. So they're going to be racing against the clock to get that ball rolling.

From an employment standpoint, job postings are down about 5 percent from a year ago but have recovered quite a bit since May. So all

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in all, I think we're doing okay. But like everyone else has said, there's just a lot of uncertainty what that means going forward.

What we've seen in the past, all of that support to the ag sector can disappear just as quickly as it was provided. And commodity prices have recovered back to above where they were pre-COVID. But those prices for the most part have been on a downward trend for several years, and there's been a fair amount of stress in that sector.

So far, our banks are well positioned. They're well capitalized. They've been building their allowances. But I think they're going to need all of that as we go into the next year and the next renewal season. But so far, so good, I guess would be the takeaway. Thank you for having me, and I will yield to the next speaker.

MEMBER COOPER: My name is Charles Cooper. I'm the Commissioner of the Texas Department of Banking, and I also thank you,

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Chair McWilliams and your staff, for putting this program on today. Hopefully, this will be the beginning of many meetings in the future.

So we have 218 banks under our supervision with assets of 328 billion dollars. Generally speaking, our banks entered into the pandemic with solid financial metrics. Our number of problem banks, and we include those rated 3 in that number, is at a historical low. The average leverage ratio at March-31, it stayed at 10 and a half percent.

We did pause our normal examination process on March the 17th to focus on supporting our institutions. We resumed on June the 1st. Since then, we have conducted 44 examinations. And an analysis of those examinations indicate that our bankers have recognized the risk in their portfolio adequately.

All the portions of the bank examinations have been conducted offsite. We feel that we are obtaining the proper information

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that is needed to do this, and a lot of this goes obviously to the bankers who are providing the information to our bank examiners that are working very hard on this process. I believe that our examiners are following the examiner guidance, and I also believe that this is a very important area that we have to continue to evaluate.

As others have mentioned, the economic stimulus package certainly had a positive impact on our economy. Our concerns obviously increase the longer the pandemic and the economic shutdown continue. Texas is more economically diverse than we've ever been before. So therefore, concentrations are down which is a good thing.

We continue to monitor the energy sector. While concentrations are down here, energy remains a very important driver of the economy. We are currently hovering around 40 dollars a barrel for oil.

At this level, it's my opinion that

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the industry can exist but cannot expand or hire back displaced workers. And again, this is obviously a general statement on my part. So to sum it up, Madam Chair, we remain on high alert, but we have cautious optimism. Thank you.

MEMBER GALLAGHER: Hi, good afternoon. My name is Mary Gallagher. I am the Commissioner of Banks for Massachusetts. It's my honor to have been invited to participate in this advisory committee, and I thank the FDIC and Chairman McWilliams.

As those assembled today have already articulated, the COVID-19 pandemic response has presented an opportunity for our community banks to really showcase the significant role that they play in our local cities and towns. In Massachusetts, COVID hit hard, early, and is still here with us. Mid-March feels like a very long time ago.

It remains fresh and yet I am still extremely impressed with the Massachusetts

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community banking community who pivoted quickly to meet customer needs while balancing health and safety considerations for their customers and employees alike. Practically overnight, our depository institutions were providing relief within our communities through waived penalties and fees, proactive engagement with borrowers, in many cases prior to the CARES Act and Massachusetts Chapter 65 emergency legislation. They have provided millions of dollars in contributions for COVID relief, including PPE efforts, addressing food insecurity, and vulnerable population.

And importantly for our local economies, to borrow a phrase from Chairman McWilliams at the recent Community Bank Research Conference, our community banks really punched above their weight in the rollout of the Payment Protection Program. COVID-19 is still very much present here in Massachusetts. And our public health experts have been clear that the disease

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will remain with us until a reliable, safe, therapeutic treatment is available.

We are currently in Phase 3 of a four-stage reopening. It is undeniable that Massachusetts citizens and small businesses have made tremendous sacrifices, yet the reality remains that unemployment levels are still elevated and sectors of our local economy remain particularly vulnerable, including restaurants, hotels, hospitality as we've heard in other states as well. Over the past couple of months, our executive branch, legislature, judiciary, and community advocacy groups have worked collaboratively to review housing stability concerns associated with the pandemic.

Just this week, Governor Baker announced 171 million dollar eviction diversion strategy to provide direct aid to tenants while establishing court mediation and legal representation programs. Our state-level moratorium on evictions and foreclosures expires

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this coming Saturday at which point the CDC's moratorium will kick in for Massachusetts residents. At yesterday's press conference, Governor Baker was asked whether a moratorium extension had been considered.

His response resonated with me as a financial regulator, because he noted that the longer the moratorium were to stay in place, the deeper the hole that we will all need to navigate. Certainly the pandemic's challenges and lasting impacts are not fully realized, yet we continue to hear from our banks that they remain committed to working with their customers on an individual basis as needed. While COVID and its economic impact will continue to dominate our regulatory conversations and examinations for the foreseeable future, I'd like to offer some non-COVID updates on the banking landscape here in Massachusetts.

Massachusetts residents continue to have a great deal of choice when it comes to

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financial services. Our financial service industry remains strong and quite competitive. Currently, we have 96 state-chartered banks ranging in size from 60 million to 13 billion plus a large global custodian.

Our agency also has authority over 55 state-chartered credit unions and 10,000 nondepository licensees. While competition and consumer choice abound and we continue to see nondepository licensee growth, the multi-year consolidation trend of our depository institutions remains in effect. We are averaging a half-dozen bank merger transactions annually.

As I know technology and innovation have been a focus at the FDIC, I am happy to share that there is active engagement in Massachusetts for a financial technology ecosystem to collaborate and establish critical partnerships to leverage talent, research, and investment. And Massachusetts' fintech ecosystem includes participants across local government, higher

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education, venture capital, incubators, entrepreneurial startups, and established industry, including our banking institutions.

The pandemic has created an environment of accelerated digitization and fertile ground for a fresh wave of innovation. Our banks who already embrace technology and/or collaborative efforts stand to excel. Of course, with technology, we certainly remain concerned about cyber risks.

Massachusetts is just one of a few states with its own CRA statute, and we continue to monitor the federal agencies' approach to Community Reinvestment Act reform. As our society starts to grapple with the disproportionate impact COVID is having on lower-income communities, it follows that banks and us as the regulators will want to highlight the CRA efforts our community banks are making in low-to-moderate income neighborhoods. Even more broadly, the national dialogue on social justice

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issues has presented locally where we have witnessed several of our community banks leading in diversity and inclusion efforts within our community.

Some examples include apprenticeship programs in gateway cities, advisory efforts for women and minority-led small businesses, and PPP fee reinvestment back into our communities. I am pleased to see that diversity and inclusion is on this afternoon's agenda. And I share enthusiasm and commitment to ongoing dialogue in this space.

Finally, as we are in the business of examining risks and our regulated entities are in the business of managing risk, I'd like to posit for future consideration the increasing risk that climate events may have for our banks and their portfolios. Many of our community banks already consider climate as a systemic risk. As a New England state, we see hurricanes, blizzards, flooding, drought.

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Senior leadership from our agency recently had the opportunity to meet a Boston headquartered think tank called the Ceres Accelerator for Sustainable Capital Markets to discuss their June 2020 report entitled, Addressing Climate as a Systemic Risk: A Call to Action for U.S. Financial Regulators. I'd be curious how the FDIC and our other federal and state regulatory colleagues might view climate risks for our banks and welcome additional education, awareness, and dialogue as we consider this portfolio risk for our regulated entities.

Thank you for this opportunity to provide some thoughts from Massachusetts. Our collaboration as regulators and our ability to communicate effectively and transparently with industry remains essential in the months and years ahead. We as the regulators have urged our institutions to work with their customers and provide relief according to our state and federal emergency legislation. Our banks naturally are

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concerned as to how we as their regulators will examine them in the months and years ahead. We have been consistent in our local messaging that any prudent steps by our regulated entities to assist customers will not be met with criticism by the Division of Banks.

In closing, I just want to echo some earlier remarks and express a special shout out to the FDIC's northeast region. At the onset of the health pandemic, Frank Hughes and his team set up standing calls among the northeastern states and our federal counterparts where the collaboration and information sharing on a regional level has been outstanding. These interagency relationships certainly predate the current crisis but nonetheless showcase the importance of collaboration between fellow state banking departments, the FDIC, Federal Reserve, OCC, and CFPB. Thank you very much.

MEMBER LEARY: Good afternoon. I'm Edward Leary, the Utah Commissioner of Financial

Institutions. I thank Chair McWilliams and Director Gruenberg for this opportunity to address the committee and to provide insight from Utah, Utah banking.

I think generally the statement would be Utah banks are doing well. Utah bankers have responded very effectively to the pandemic crisis and have worked aggressively also in the PPP loan area, getting it out to the small businesses in our state. I would tell you if there's a concern I'm hearing today, it is probably dealing with the forgiveness process of those PPP loans and what the parameters are.

I thought of a number of the areas I'd like to address. Ironically, Mary already addressed to some degree, but I'd like to put the Utah spin on some of it. The Utah tourism industry this summer did very, very well to the point that I would use the phrase the Utah national parks were almost loved to death this past summer. But it does come at a price. And

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as Governor Herbert has mentioned many, many times, it's the balance between propping up and maintaining an economy and trying to protect the individuals within the state.

Utah has seen a significant increase in COVID cases recently. The governor yesterday announced a change to a county-by-county risk profile system based upon cases per population. Utah has also suffered under what we would call climate issues this summer.

During the pandemic, the weather and natural disasters have dramatically affected Utah from a strong earthquake at the very beginning of the pandemic, sustained strong hurricane force winds that caused damage and toppled thousands of trees, to fires burning in Utah and for that matter throughout the West and the resultant poor air quality from those days of the fire. In a humorous attempt, it seems that every fire in California causes bad air or smoky air in Utah. And I want to convey the environmental concerns

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are also affecting everyday life, banking in Utah, and it's not just the pandemic.

I'd like to mention that the Utah economy is doing relatively well, in fact, better than expected, up through and including the state's current unemployment rate is 4.1 percent, one of the best, if not the best in the country. My people wanted me to also pay tribute to Chairman and indicate that thank you for your transparency initiative. In our experience, we see dramatic improvement in the way the FDIC is processing applications.

Utah has 35 state-chartered banks for total assets of about 348 billion. A couple of these following comments I'd like to make are probably more relative to the supervision process than to banking conditions, per se. But as Mary mentioned, a few weeks ago, the Federal Reserve released an ANPR on its approach to modernizing regulations that implement the CRA.

In the summer, the OCC released its

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final rule on CRA. The FDIC started down the road but has not gone further. The appeal would be to all that can harmonize and standardize the various approaches between the federal banking agencies.

It's my view the CRA desperately needs to be modernized. However, we would not want a bifurcated regulatory standards that could disadvantage state-chartered institutions. Also, while it may not be in the arena of the regulators -- federal banking regulators, of concern to Utah is also the congressional passage of the Bank Service Company Examination Act, S.4154. It's important to us as one of the states that perform and conduct bank service company exams jointly with the federal banking agencies.

Finally, I'd like to mention we have been fortunate we are able to hire new examiners. Testing and interviews virtually is difficult, but we have performed them. We are looking to

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onboarding.

We believe that also would be difficult but doable. But so much of a newly hired examiner's ability to understand the job of bank supervision comes through on-the-job training. As we onboard new examiners in the age of COVID, we are concerned about the absence of that in-room or on-the-job training knowledge transfer to the new examiners. If the FDIC has any insights, tips, or strategy for ensuring new hires have a good experience while getting up to speed, we would love to hear them.

Thanks again for this opportunity to comment. As others have done, I cannot compliment Kathy Moe and the western regional office and staff for what they've done to work with us throughout these trying times. Thank you all.

MEMBER FITE: Great. Thank you, and I'm up next, Tom Fite, the Director of the Indiana Department of Financial Institutions. Like many

before me, I first want to say thank you for forming this advisory committee and I'm obviously thrilled to be a part of it.

I'm going 13th, I guess, on the list means a lot of things have already been said. So I'm going to refrain from doing much reiteration. But maybe what I'll do is provide just some local flavor around maybe what's happened in Indiana and give you a few examples.

And I think I'll start by talking about a little town called Elkhart, Indiana. In the last recession -- so you probably wouldn't remember. Elkhart, Indiana is a small town in Indiana. But in the last recession, the President actually came to Elkhart a few times and spoke about the unemployment situation in Elkhart. And at that time, Elkhart was approaching 20 percent unemployment.

And it's ironic and I think it shows how different maybe a pandemic-driven recession is when at this point in time actually in Indiana,

Elkhart is a bright spot and actually have solid employment there. And in fact, they're struggling to find enough workers. And the reason is because Elkhart is big into manufacturing of recreational equipment and RVs. So I think it's an interesting story.

Maybe going back to what Melanie said about Montana when you see certain industries like travel doing really well. And in Indiana, you see that through this RV area prospering when, in fact, other areas are really struggling. So I think it's an interesting example maybe of how this pandemic-driven recession is very different from the last recession and one example in Indiana where that's really showing it as a strong point.

The second area I would talk about maybe is housing, and Indiana and the rest of the country as well, housing is very strong. And we're even for the first time maybe in many generations seeing price increases in Indiana

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through housing, again, showing maybe where a pandemic-driven recession maybe is different from other recessions we've seen before. What's not faring so well, though, is in downtown Indianapolis.

And I know many of you wouldn't see maybe Indiana as necessarily a tourist destination. But what we do have, though, is really strong business travel in that we have one of the largest convention centers in the country. And that's sitting empty obviously since March. It's been a huge impact to central Indiana, the Indianapolis area and to the business travel we would see in Indiana typically and the money that brings into our state.

Talking to our bankers and our examiners, there seems to be at this point in time a bit of a split occurring with asset quality. And let me describe just a little bit. What we're seeing I think is that the businesses that were COVID impacted are now kind of taking

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one of two paths.

In the first path, the happy path, is that many of them are actually recovering and are generating enough cash flow to be able to make their payments. And that's been obviously great for us and great for our economy in Indiana. However, there is also another segment out there, though, of those COVID-impacted businesses that are still struggling and haven't maybe yet recovered to make their full payments.

And we're hearing from bankers and industry community alike that come year end, when a lot of the -- maybe the benefits that banks have received and provides their customers, to work with their customers, start to expire. And we're anticipating that could have a pretty significant impact upon the banking industry obviously in the first and second quarters of next year. So that's something we're definitely watching for in Indiana again but also I think all across the country.

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Speaking maybe of the industries obviously that we're all talking about, a few weeks ago, a story came out in Indiana mentioning that about 40 percent of Indiana restaurants are at exposure to be failed within the next six months. Obviously, that would be a very huge and devastational impact to the local marketplace. But then also the next week, 50 percent of the hotels seem to have the same possible outcome. So obviously looking at 40 percent of restaurants in Indiana, 50 percent of hotels being possibly failing in the next six months is pretty bleak.

What we're seeing, though, within that is just as I mentioned before kind of depends upon the business you're in and the area you're in. Here too it's very much pocketed in that some restaurants actually are doing very well depending upon location and whether or not they're around locations people feel comfortable going out and the same thing with hotels. Hotels, based on the location, some of them are

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actually seeing good occupancy, while others stay completely empty.

I'll end maybe with just one more point. And we focus so much right now on asset quality and as we probably should. Obviously, this is what we're dealing with first and foremost in all of our states and across the country.

But we also have a second risk that I think we need to keep our eye on, and this has been subject to a lot of discussion in Indiana with some bankers I've talked to the last many weeks. And that risk is interest rate risk. Obviously, with rates being so low and staying low for that matter for quite a while but even more low now, I'm hearing banks out there struggling to find loans above 3 percent in a 10-year category for commercial real estate owner-occupied which obviously is a very low level of lending to think you can sustain profitability at a bank long term.

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So I would just mention there that we've got to remain very focused on asset quality and get through the short term but not ignore that long term risk on the interest rate risk side maybe with locking into low rates as the bankers are at this point in time. So that concludes my report for Indiana, and I think I'll pass it along to the next speaker. Thank you.

MEMBER THOMPSON: Hi, this is Mick Thompson, state bank commissioner in Oklahoma. It's good being fourteenth like Tom said because most everything has already been covered. But I'll give you a few highlights, kind of what's going on.

First of all, I want to continue saying that we thank the Chairman for this opportunity and particularly the partnership that we have in Oklahoma with our Oklahoma City FDIC and Dallas FDIC. They've been very cooperative and work very well together, as I said, in a partnership. Our state budget is suffering.

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We're going to have a deficit probably this year because of the oil and gas production and our sales tax requirement. They both seem to be rebounding. But by the time session starts, we're going to have -- the state is going have issues.

The department, we're very strong. We just gave all of our employees a bonus. They're done so well under this circumstance. And then we will continue with our rebate program back at the banks. So we'll give them a percentage of their assessments back probably somewhere between 10 and 20 percent this year.

As far as the coronavirus in Oklahoma, we've had a surge lately. And I know that yesterday in Oklahoma City, all the ICU beds were full. I don't really know what's causing that except to say maybe football season in Oklahoma causes a lot of that.

The department plans, we're currently in a reopening plan of our office. Our lobby is

still closed, by appointment only. We're bringing in a select crew so we don't have a lot -- we can have a lot of social distancing. And our examinations are still done all remote and it's been surprising how well we've done that.

Again, I want to commend the FDIC for their work with us on that because we're on schedule. We'll have all of our banks done that were scheduled for this year by the end of the year. Bank conditions, it's like Kevin said that we don't really know. There's no issues at this point. But I think when the free money runs out, then the second, third quarter of next year, we're going to be able to tell really what the true picture is.

And we use the Oklahoma CARES Act to fund the businesses much like Commissioner Hall talked about. Probably the main focus that we changed, we went 25 percent rather than 15. And we were able to help -- the banking department and the bankers association was very involved

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with the Department of Commerce in the building of that program. And we helped over 4,000 small businesses. That was our target was small businesses and not the corporate firms.

So with that, pretty much everything else has been covered. Banking industry in Oklahoma is strong. Banking department is strong. I think the new norm is going to be we're going to do a smaller footprint with state government and more and more telework and more remote exam. And with that, that concludes my remarks.

MR. DAVIS: Great. Thank you to all of you for your observations. In the interest of time, I'm going to now turn it over to Shayna and Camille.

MS. OLESIUK: Great. Thank you very much, Chad. So my name is Shayna Olesiuk. I am the associate director for our national and regional risk analysis group. So I will spend my time today talking about some of our

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observations, both on the national and the regional economic conditions. And then I'll turn it over to Camille to talk about some of the banking trends that we're seeing.

Overall, I agree with what many of you have said, that while we have been through several months of trends unfolding, there's still quite a lot of uncertainty. And I think that underscores a lot of what I see in the economy right now. So I'll start with employment and similar themes to what many of you have already talked about.

As of September, the national economy has recovered just about half of all the jobs that were lost which is great progress but still quite a ways to go until things recover -- recover fully, that is. The gains have been recorded across several sectors. Many of the hardest hit sectors, the tourism industry and retail trade is where we have seen a lot of the gains.

However, those sectors and most

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sectors in the economy still remain in a net negative position from the pre-pandemic levels. And I think one of the most concerning parts to me is the fact that we have seen a slowdown in the pace of job growth. So I think a lot of the early gains of businesses reopening during the summer helped our job growth, and now we're sort of seeing a leveling off and not a lot of drivers in sight to recover those remaining jobs.

One of the sources that we look to for this data is the New York Fed's weekly economic index. And obviously this has the benefit of being weekly data. And that index also includes a lot of different data points. But it too shows that the pace of recovery is slowing.

On the unemployment front, a similar story to what many of you have talked about. We peaked back in April at an unemployment rate of about 15 percent, and now we're down to below 8 percent, 7.9 percent. All of the regions of the country were hard hit, especially during April

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was the peak for most regions. And the levels have come down, although still remain elevated, especially in the northeast and the west where a lot of the hard hit industries are headquartered.

Another concerning point about the unemployment trends is the share of people indicating that their That accounted for the majority of unemployed people earlier in the summer. And we've seen a reversal of that trend. And now many of the unemployed people are indicating that their unemployment is permanent. So that, I think, is another indication of still quite a lot of concern.

Looking at the recession and where we stand with that data, some economists say that the recession once we get third quarter data, that data will show that the recession is over. We're looking at forecasts of significant GDP growth in third quarter. However, it's important to remember the hole that was created in the first part of the year. And despite those large growth

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numbers in GDP, we're still in a negative position for the year.

We do not do our own economic forecasts, but we do rely on the blue chip economic forecast, the consensus forecast that comes from that source. And while forecasts have been improving over the last several months, the forecast for the year -- the consensus forecast for the year is for -4.6 percent GDP growth. So certainly improved from earlier this summer but still not a good number for the full year.

And one of the biggest drivers of this and I think several of you touched on this. In a typical recession, we see durable and nondurable goods taking the brunt of the hit. This time, it's been different.

Durable goods and nondurable goods, spending in those areas are actually up from pre-pandemic levels. And spending on services is what is holding GDP down. This makes a lot of sense because if you think about a lot of the

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spending that families and businesses have done recently, a lot of it is for goods to work from home or have school from home and less spending on services and entertainment, things in those categories.

Next, I'll talk about some specific industry and credit conditions. And I'm happy to say that many of these also overlap with what some of the state commissioners brought out. First, commercial real estate, we've seen a deterioration in demand for all types of commercial real estate.

We look at five different segments, retail, hotel, office, multifamily, and industrial. And the biggest and hardest hit has been retail and hotel, then office, multifamily, and finally industrial. Some parts of industrial with all of the online shopping and need for warehouse space, some parts of industrial have actually benefitted. But for the most part, the economic drivers for commercial real estate have

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been moving in a negative direction with increasing vacancy rates and declining rents.

We've done some comparisons to what we saw with commercial real estate during the financial crisis compared to what we've seen in the last couple of quarters. Currently, data that we use from CoStar shows that property prices are down about 5 percent from pre-pandemic levels. And CoStar's expectation says that these prices will continue to fall over the next several quarters.

But this is not as bad as what we saw during the financial crisis. Of course, there's still a lot to be learned. And the uncertainty that we all know is out there, these forecasts could be revised downward. But so far, they don't look as bad as the financial crisis.

And next, agriculture, many of you also referenced agriculture as an area of concern. It's an area of concern for us as well. Agriculture, the industry entered this pandemic

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in a stressed situation. But banks remain very resilient. So I agree with the comments that you mentioned in that area.

And I think it was the Commissioner of South Dakota who mentioned the government payments. That has definitely been a factor that has boosted the agriculture industry. And despite the declines in net farm income that are expected this year, the government payments are making up for much of that decline. Also, the stability in farmland values continue to support the agriculture industry.

Finally, there's -- I would add energy to the list. And with the energy sector, there's in some states and regions overlapping risks between agriculture and energy, especially with demand for fuel and the ethanol industry and corn producers, especially earlier in the summer. Although energy demand, especially for gasoline, has been fairly resilient this summer as car travel has been preferred.

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And jet fuel is a different story with the declines in airline travel. But energy demand for gasoline has remained fairly resilient. So with that, I will turn it over to Camille to talk through the banking trends.

MS. SCHMIDT: Thank you, Shayna. Today, I want to just briefly review some bank trends from the second quarter 2020. And then I'll touch on some select examination trends that we've seen in our review of reports of examination.

First, from second quarter of 2020, as Tom from Indiana alluded to, low interest rates. They really pressured net interest margins in the first half of 2020. The average net interest margin for the banking industry was at a record low in the second quarter.

Second, the continuation of weak economic activity resulted in significantly higher provision expenses. And this was noted for both banks that had adopted the CECL

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accounting standard as well as for those that have not. Third, we saw PPP loan growth in the second quarter. This was significant, and it was especially true in the community bank sector.

Tom from Indiana also said and I would reiterate, the big question that remains is asset quality. And we're really interested to see what will happen when the deferral periods end. So I know we're all anxious to see third quarter Call Report results come out in November.

There's some slides that you can see here. I can (audio interference). The CRE-related supervisory recommendations that we've observed tend to be related mainly to Board and management oversight. We see recommendations that often pertain to concentration limits in policies or weak strategic planning.

Portfolio sensitivity analysis is another area we see more recommendations. These are usually focused on the process itself like the process being perhaps in its infancy or weak

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analysis of the results. Portfolio management recommendations also occur, and these are more commonly pertained to monitoring concentrations or contingency planning.

So we didn't see as many supervisory recommendations related to funding strategy or credit underwriting. However, when we did see those, they were more often escalated to matters requiring Board attention or what we call MRBAs. That was true for -- I should mention for funding strategies.

And if you move to the next slide, while we're talking about MRBAs. Overall, MRBA occurrences have decreased at well-rated institutions over the past five years. In the first half of 2020, about a quarter of examinations included MRBAs.

Recommendations again centered around Board and management oversight. Corporate governance issues like policy concerns, audit, and Board oversight were the most common. Credit

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and lending administration MRBA occurrences, while we see them, they do remain at manageable levels.

So that's what I have on banking trends and some of our select exam trends. I'd be glad to take any questions if there are any. All right.

MR. DAVIS: So I'm not seeing any hands raised at the moment. If anybody does have a question, it could be okay to just go ahead and jump in. I'll allow a minute or two here to just see if anybody has a question.

MEMBER AFDAHL: Say Chad, this is Bret, a question for Camille. I guess I'm curious on all the ag subsidy -- or maybe this one is for Shayna on the ag subsidy payments. I guess I've lost track of the percentage of the appropriated funds that have been distributed. Do you know where we're at as far as how much of the funds have been distributed to the ag sector to this point?

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MS. SCHMIDT: This is Camille. I'll take that. Bret, I've also lost track. The last I counted, I was looking it up yesterday. I could be wrong, but I think there's been about 37 billion appropriated for the direct payment program to farmers.

Now I don't know how much of that has actually gone to farmers yet, what they've received. But my recent research yesterday, I think it's up to about 37 billion in total direct payments. Does that answer the question?

MEMBER AFDAHL: Yeah, I mean, I think it just points to another layer of uncertainty. I've tried to find that kind of information. It's eluding me to this point, but I just was curious if anybody else had a better handle on it. Thank you.

MS. SCHMIDT: Bret, I'll look into that and try to get that to you. It is further hard to get it broken down by just what ag sector it goes to, whether it's soybeans.

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MEMBER AFDAHL: Yeah, absolutely. CFAB 1 and 2 have been dramatically different in which specific commodity was the winner, so to speak. So I agree on that. Thank you.

MR. DAVIS: Great. Thanks, Bret. Anybody else, questions, comments, additional thoughts that may have come up?

(No audible response.)

MR. DAVIS: Okay. Hearing none, we are now scheduled to take a short break. We had had this scheduled for 15 minutes. We're about 5 minutes ahead of schedule.

So why don't we just plan to be back here at 3:00. I expect probably had some emails pile up. So if everyone could come back at 3:00, we'll get started with the next item on the agenda which is community bank consolidation. So thank you. See you at 3:00.

(Whereupon, the above-entitled matter went off the record at 2:38 p.m. and resumed at 3:02 p.m.)

MR. DAVIS: OK -- I hope everyone has made it back. We're about ready to get started with the next session.

This afternoon we have a presentation on Community Bank Consolidation. From the Division of Insurance and Research, we have George French, a corporate expert and senior advisor, and Jon Pogach, Chief of Financial Modeling and Research Section. Jon and George, please take it away.

MR. FRENCH: Thank you very much, Chad. This is George starting out. Good afternoon, everyone.

I'm going to, for my part of this, I'm going to cover some basic information about bank consolidation and branching. And if we could, go to the next slide please, Mike.

I'm going to start out just by reminding everybody that bank consolidation is a long-term trend with no single cause. You can see we had 18,000 banks and thrifts in 1984.

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We're down to a little over 5,000 today.

The number of charters on this graph reflects both exit from the banking industry and entry into the industry. I'm going to cover both of those topics.

First, I'd like to explain that the term community bank that is used in these slides refers to an FDIC research definition, which does not focus solely on asset size, but it's intended to identify banks that both take deposits and make loans within a limited geographic area. If we could go to the next slide.

This points out that the rate of attrition or consolidation since the crisis has actually not been as fast for community banks as it has been for non-community banks.

You can see here that about 30 percent of the community banks in existence in 2011 have closed since that time versus about 36 percent of the non-community banks.

An important difference, though, is

that community banks are more likely to be acquired by unaffiliated companies, which is the gold area on the left, as compared to non-community banks where when they close, they're more likely to be within-company mergers. So let's go to the next slide.

This basically gives us an idea of who is acquiring whom. It shows you that, by number, most community banks are acquired by other community banks. About two-thirds of all community bank acquisitions are by other community banks.

For the very smallest community banks with less than 100 million of assets, almost 90 percent of those acquisitions are by other community banks.

Of course, the opposite is also true. The larger community banks, a billion and up, over 80 percent of those acquisitions are by non-community banks. Why don't we go to the next slide?

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So this tracks the exit rates of community banks, the bold line, in particular. The dotted line, for some reason, the legend didn't show up. That's non-community banks.

But community banks are exiting the banking industry faster than they have since 1984 in recent years. This is a particular type of exit by acquisition by an unaffiliated institution or a self-liquidation, which seems to reflect a decision by an independent organization that it no longer wishes to be independent.

So, you know, the question is why (audio gap) an environment more challenging to make money for banks. And then, of course, there's the idea that the efficient size of a bank is sort of increasing over time as a result of a number of factors. But in any event, the exit rate of community banks is increasing.

So now let's turn to the entry part of the equation. Go to the next slide.

So probably many of you have seen a

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chart that looks like this. It displays the significant decrease in entry into the industry since the crisis. You know, the question is, "Why is this?" This is an area of speculation for many people.

Some Federal Reserve economists did a paper that suggested that about 75 percent of this reduction in chartering can be explained by economic factors. They focus particularly on the low and flat interest rate environment.

Of course, there's likely other factors at work as well. And one might think that some of the factors that would inhibit entry might be also some of the same factors that are encouraging more of the exit that we saw on the last slide. Why don't we go to the next slide?

So this is a look at the initial equity capital of new banks. So it's limited to de novo banks that have initial equity of less than 100 million, so really small de novos.

And over time what jumps out at you is

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that the capital required to start a new bank or the initial capital as of the first Call Report has significantly increased since the crisis. These are averages, by the way. And there's not as many of the banks, obviously, in the post-crisis period as there were in the pre-crisis period.

But I think the takeaway from this, one reasonable takeaway might be that the proponents are just coming and looking to start a typically larger bank than they did in the past. That initial equity is the amount needed to support the size of the new bank that you're projecting to have.

So it's possible, again, similar to that exit chart, that this may be reflecting some increase in the efficient (audio gap) of activity going on. So we'll how this plays out over time.

Let's look at branching for a couple of minutes. Turn to the next slide.

So, to give you a little background,

the largest number of branches of U.S. banks was back in 2009, just under 100,000. It's now down to about 85,000.

And this map, which goes back to 2012, shows that the reductions in branching and the number of branches are happening all over the country.

If you'd been reading your FDIC Quarterly, you know that the banks that are more likely, have closed branches more frequently are those in counties with declining population, banks with higher premises expense, and banks that acquired other banks, since acquirers tend to close branches more frequently than non-acquirers.

It's not evident from this map, but it's also true that most of the closures of branches by number and more in percentage terms are in metropolitan counties, just because that's where most of the branches are.

But you can see from the map that

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there's also branch closures in rural counties all over the country. And even though they're more, less frequent in rural areas, they probably are more keenly felt there since, you know, there's fewer branches there, and the closure of one may really affect how far you have to travel to get to another branch.

Let me turn, let's turn to the last slide of mine. So this slide illustrates that branch closures may be contributing to a limited, a more limited availability of banking services, at least in some places.

For context, there's 3,145 U.S. counties. Half of them have ten branches or more. Half have ten branches or less.

So branches with no offices or one office is, or counties with one office, no offices are sort of outliers in a way. So there are 134 counties with one bank office, 34 with no bank offices as of 2020. Now, and this is an increase.

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So, for 121 of the 168, this is sort of business as usual. They have now what they had before.

For 46 of them, they've actually seen reductions in branches, in some cases considerable reductions. You can see in the footnote some of the counties went from three, four, or five offices in 2012 down to only one in 2020.

So what's going on with these counties? I looked at the Wikipedia pages for them, just skimmed over them. They're mostly in mountainous areas out west, Alaska, a number in the northern Great Plains, and quite a few in the south, the rural south.

Many of the counties are sparsely populated, have a lot of land, so very low population densities.

But others are not like that. So, for example, there are two counties with populations over 20,000 where the number of branches went

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from five down to one and from three down to one.
So (audio gap).

MR. DAVIS: George, we seem to be
having trouble with your audio -- Jon, perhaps
you should --

MR. FRENCH: -- poverty --

MR. DAVIS: -- jump in. Oh, there we
go.

MR. FRENCH: So, in any case, given
the importance of bank branches to many
depositors and small businesses, these trends
certainly bear watching.

And more broadly speaking, the
interrelationship between banks and the local
economies is a topic of importance.

And that is a point that brings us to
the next part of the presentation, which deals
with issues about that. So that's my part of it.

MR. POGACH: Great. Thank you. All
right. So I'm Jon Pogach. I'm going to first
present some research that I've done with some

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colleagues here, a colleague here at the FDIC and at the CFPB.

I want to thank you all for taking the time to listen to me. It's a nice opportunity to put on a jacket and clothes like a real human. So next slide.

All right. So first I have to say that these views are mine alone and do not necessarily represent those of the FDIC, the CFPB, or my co-authors, or the United States. Slide.

So the paper that we wrote is really motivated by this graph. And what this graph shows us is the share of deposits held at small banks and the share of employees that are employed at small firms in the United States over the beginning of the century. So that's early 2000s until 2017 is when this study ends.

So the red line shows us the share of deposits at small banks, which for the purposes of this paper were defined as a billion dollars

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or less in real dollars. And small firms for the purpose of this paper are 250 employees or less, for reasons we discuss in the paper.

So, if you look at the red line, which shows the share of small, deposits held at small banks, that's been in pretty continuous decline over the course of this time period.

If you look at the share of employees that are employed at small firms, that rises at the beginning of the turn of the century, and then has seen a pretty continuous decline downward from about 2004.

So really the purpose of the paper is to try and understand these two trends. And we can only imagine what these two numbers are going to look like over the next few years of data as they come in as we think about the COVID pandemic and the associated government response and how that's going to affect small business shares of employment and small bank shares. Next slide.

So, if you think about those two

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graphs simultaneously in the context of the literature, the narrative is typically something along the lines of the following.

While there's consolidation of the banking system, we can think of this as maybe being driven by regulatory changes or technological changes.

Small banks, we know from the literature and I'm sure all of you have this view also, is that small banks tend to have a comparative advantage in lending to small businesses.

So what we get from those two graphs or those two pieces of information when we think about those graphs, the common narrative from the literature is, well, there's consolidation coming from the banking industry, and this is causing small banks to exit.

And this is then going to be restricting the supply of credit to small firms and potentially an issue for small businesses in

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the U.S. economy. Next slide.

So the sort of simple version of this story, in a picture, we could imagine that we have a county somewhere with small firms and small banks paired together in relationship, lending relationships.

And then outside of this county, we have national firms. And national firms get their credit from national banks, or they may get it from credit markets or elsewhere. Next slide.

The way that the literature typically thinks about those two lines at the beginning was that a national bank might take over a smaller bank or might push them out of business in some way. And that severs the relationship that the small bank had with the small firm. And then what happens to the small business credit for the small firm? And what are the implications for the economy? Next slide.

What we do in our paper is to say, well, maybe that's true. We don't say that that

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direction isn't happening. But maybe it's also going the other way.

So there is a number of papers in the economics and finance literature that talk about the consolidation of the real economy.

We can think of this as also coming from technological advances. If you think about the expansion of Walmart through changes in supply chain management, if you think about regulatory changes, for example, antitrust prosecution in the United States over the last couple decades, these might be contributing to the consolidation of real industry.

And if we think about small banks' primary customers as being small businesses, maybe what's happening is that there's a loss of small businesses driven by these other factors and this is affecting the viability of small banks who depended on those small firms as their customers.

I want to stress again that our

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stories are not mutually exclusive. It could be that our story is true, that it's coming from the demand side, there's not as many small businesses that demand the services from small banks, while also coming from the supply side. There are real things that are happening to the banking industry that are also affecting the supply of credit.

And if we think about why this is important, as I said before, the pandemic, the economic recession that's associated with that, and then, of course, the government responses are all going to be feeding through the real businesses. Small businesses are affected by both the pandemic and the government response.

And these features of the economy are then going to help us understand how we might think the banking system is going to play out in the future. Next slide.

So, if you go back to that simple picture that I showed before, we have small firms and small banks that have relationships with one

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another. Next slide.

What happens if instead what's happening is we have national firms pushing out small firms? Or, alternatively, what happens if we think about this as COVID? We just have small firms going out of business, severing the relationships that they have with the small banks. Next slide.

Really the question of our paper is what next for the small bank. Slide. And then slide.

So what we do in our paper is we try and estimate the effect of small business performance and small business growth on small bank performance using a couple data sets.

And the question that really lies at the heart of a lot of economic studies is how do we show what's driving what, how can we see that what's going on here is really that it's a demand side effect, that it's small businesses that are no longer demanding the services of small banks

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versus something happening from the bank side.

Next slide.

So the way that we do this is to say, well, let's look at some counties as of the year 2000.

So there's my home county and my colleague, Stefan, my co-author, Stefan, who's on the paper. We come from two different counties. And our counties have different reliance on different industries.

My home county might rely more on health care and transportation, a little bit less on retail and manufacturing. Stefan's home county, on the other hand, relies a lot more on retail and manufacturing and less on health care and transportation.

That's as of the year 2000. Now, what if I told you that the small business trends in employment were really good for health care and transportation? Small businesses seem to do really well in those industries over the

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subsequent 15 years, whereas retail and manufacturing saw a big slump in small business employment over that time period.

What we would expect is that these national trends would mean that the demand for small business, small bank services coming from small businesses in my home county are going to increase, whereas the demand for small bank services coming from small businesses are more likely to decrease in Stefan's home county. Slide.

So the main findings that we have in our paper, using this is that a one percent decrease in small firm employment is associated with a .9 percent decrease in small bank deposit growth.

We also find that it's associated with decreases in small bank income, small bank, small commercial lending. We find a smaller, less robust effect on real estate lending. We find that this is largely coming through increases in

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provisions.

And we don't find that large bank deposit growth is affected by changes in small firm employment. We also don't find that large firm employment seems to be driving anything on small banks, which is consistent with our narrative. Slide.

So what drives our findings? So why is it that we're seeing these small banks' deposits decreasing?

Well, we can think of a few different explanations. And some of the explanations that we explore in the current version of the paper are maybe these banks, because they're losing small business customers, are more likely to be acquired. Maybe they're more likely to look to acquire another bank to capture the fact that they need to be of larger scale. Or maybe they're more likely to fail. Slide.

So what we find in the paper is that it's really coming from the likelihood of being

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acquired. So where we see more small business growth, according to our measure, where we're expecting to see more small business growth, that's where small banks are the least likely to be acquired.

And, conversely, where we see the, those counties that are likely to have the least amount of small business growth are where small banks are most likely to be acquired. Slide.

So the conclusion is that the composition of the banking industry really is going to depend at least in part -- this is almost teleological. This is obvious when you say it, that it's likely to depend on the composition of the real economy.

So, if you think about the existing literature, there's really then a feedback loop between what's happening to the consolidation of small industry and what's happening in the consolidation of small banks. So one is driving the other and back and forth.

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And then one of the things going forward, the evolution structure of the structure of the banking industry is going to depend on the evolution of the small, the structure of the small, American small businesses in general.

And if you think about policies affecting small businesses or small banks, these things are also very interdependent. So policies that are going to affect small banks are only going to be as effective as what's going on in the real economy with small businesses. Slide.

So one other thing that I was asked to discuss is, unrelated to the paper, is the 2020 Academic Challenge, which has recently been launched. We're very excited.

And what the Academic Challenge is - it's bringing real-world policy banking questions to the classroom, to undergraduates in particular.

The question that we're asking undergraduates for the first-ever challenge is to

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try and understand the effects of community banks on local economic development.

So it's a nationwide competition for four to five undergraduate students. It's going to consist of two rounds.

So the first round is going to be a written component where submissions are going to be six pages of text and then accompanying graphics and tables. And that is going to -- the submission due date is November 20, 2020.

Then we're going to review those submissions and choose the best submissions. And the top five teams are going to be invited for a finalist presentation in April of 2021 to Washington, D.C. hopefully in person, virtually if that can't happen.

And we also provide the students with a data set and some prompts to really help them engage with the material and try and understand the effect of community banks on local economic development.

So that is it for my presentation.
And I thank you all for your attention.

MR. DAVIS: Okay. Thank you. I will now open the floor for questions. Please let us know if you have a question and thoughts, comments.

MEMBER AFDAHL: Chad, this is Bret again. I got maybe two, one to George. Do you have -- is the map, the branch location, open, close, is that map available on your website? I was just wondering if we're able to take a more state-specific look at that to get a better view of the individual counties.

And then to Jon, I'm curious. You know, we've seen anecdotally ag operations grow much more quickly than, or ag banks can grow their capital and lending limit. And I'm just curious if there's a potential research opportunity there.

I'm not sure how good the data is down to that level. And there's other reasons, you

know, ag operations leave a specific bank. They can be going to Farm Credit for a better rate or something, too.

But I was just curious if there, your thoughts if there is any possible (audio interference).

MR. FRENCH: Bret, this is George. The sound cut off while you were asking your question to me. I just heard the end where you said that's for George. And the next one was for Jon. So, if you want to repeat it, I'd be glad to answer it, or Jon can answer his.

MEMBER AFDAHL: Sure. I was just curious if the map is available on your website so we could get more of a state-specific look to see individual counties on the change in branch locations.

MR. FRENCH: I think we can talk about getting that available. I don't think that particular map is up there anywhere. We may have an earlier version somewhere. But that's a good

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idea.

MR. POGACH: And as for ag banks, truth be told, we actually started thinking about this in the context of ag. And there is some interesting information from the Kansas City Federal Reserve that talked about ag banks and the consolidation of farms and whether small ag banks could keep lending as farms consolidated, which was, actually one of the motivating quotes is in the paper.

The data is really interesting there. And I think that there's a lot to do, that can be done with ag banks. We didn't do it in this paper, but it's an interesting point.

I will point out that consolidation in the context of the paper isn't, as George pointed out, isn't necessarily super large banks taking over small banks.

It's really do those small banks -- can they continue to exist in a consolidating economy? Even if it's going from, you know, 750

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million to 2 billion in the context of our paper, that's no longer a small bank.

MR. DAVIS: So I don't see --

MR. POGACH: I hope that answers your question.

MEMBER RYAN: Chad, John Ryan.

MR. DAVIS: Yeah, go ahead.

MEMBER RYAN: So, Jon, I'd be interested in your -- I find very interesting the case study, the competition and the Academic Challenge that you engaged in, and if you are seeing anything where a team looks at a community that's lost its bank and what's happened to the businesses in that community, so very community-specific, or if you've looked in any of your own research to consider that (audio interference).

MR. POGACH: Yeah, so the, I hope -- the study doesn't really look at individual counties as much. They are really interesting case studies. And I would be interested in kind of understanding those specific counties and

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what's going on there. That's not part of this study, though. But, yes, that's an interesting thing that we could look at.

MEMBER RYAN: And I'm even going beyond county to community, an actual town that's lost its bank --

MR. POGACH: Yeah, so the --

MEMBER RYAN: -- what happens to small business.

MR. POGACH: Yeah, the towns, the data on towns tends to be not as good. We can get some information below the county level. Often people like myself like to work at the county level because of the other economic information that can be attained at that level. But I've done some work at a finer than county level.

MR. DAVIS: Great. Other questions, comments, thoughts? Okay. Hearing none, Jon, George, thank you very much. Appreciate it.

We'll move to our next session. And that is, we are going to hear from Brandon

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Milhorn, who is deputy to the Chairman and Chief of Staff.

Brandon is going to discuss two initiatives, and perhaps more if he would like, that are being undertaken by our new FDiTech. So, Brandon, I will turn it over to you.

MR. MILHORN: Sure. Thanks, Chad.

You know, when the Chairman came to the FDIC, we laid out broadly two proposals on innovation. The first was to encourage innovation, foster innovation at our nation's banks, including in particular community banks.

And the second and related was the more effective use of technology both at the FDIC and in particular in our supervisory efforts.

We've been working on that very hard over the last two years. The Supervision Modernization Subcommittee that the Chairman put together functions in many ways like this subcommittee. We had three meetings last year. We're working on a report right now.

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And in the middle of March this year, we really got to put that effort to the test, just like all of you. Our supervisory efforts went from about 60 percent onsite, 40 percent offsite to 100 percent offsite over a weekend.

And that brought with it some real challenges for us, and primarily because community banks, as you all know, come in all shapes and sizes, from those that are very tech forward to those that are still keeping their loan documents in triplicate stored in their vault. So we've got to work with all those institutions.

But if we can encourage them to adopt new technologies, we believe that will not only help their operational resilience, help them reach new customer sets, provide additional access to new and innovative products and services for their consumers, but it will also allow us to use technology more effectively to supervise them.

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So there are two initiatives that we've been working on in 2020 designed to attack both these problems.

The first, we put out an RFI, a request for information, earlier this year on the establishment of a public/private partnership that would be a standard-setting organization.

The FDIC would participate, along with other stakeholders. We're hopeful that other banking regulators would be involved as well to establish standards for third-party due diligence.

We heard from banks and tech companies that due diligence is one of the largest challenges in tech firms selling in the community bank space, first because all our onboarding standards are different. One bank may do things one way. Another bank may do it another way. And all that adds to cost for the tech companies.

In addition, the community banks themselves may have limited access to technical

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expertise. They may not have the onsite expertise. They have limited research and development budgets.

They can't develop this themselves. Partnerships are critical. They have integration challenges associated with onboarding vendors, including working with their core processors.

And we believe that a standard-setting organization that is, that can look at due diligence requirements can streamline and alleviate some cost pressure in that area. So, instead of looking at three or four different onboarding processes, you'd have one.

We also think that that standard-setting process can extend to particular types of technologies, whether it's underwriting technology, AI/ML, KYC requirements.

And by having regulators formulate these standards at the table with industry stakeholders, we think we can keep them more

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relevant. We can keep them focused on core requirements.

And then once we have those standards selected, once the SSO has articulated those standards, there would be a certifying organization underneath that SSO.

And these certifying organizations would act in some ways like, I like to think of them as sort of FDA labs where vendors would submit themselves for due diligence. They would submit their technologies for review for consistency with the applicable standards.

And then institutions would be able to onboard vendors that met those due diligence requirements, that met the technology standards. They'd be able to onboard those vendors, integrate them into their operations without conducting additional due diligence, sort of a Good Housekeeping seal of approval that from a supervisory standpoint financial institutions could rely on to incorporate the technology.

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Now, that wouldn't alleviate the responsibility of the institutions to conduct their own management of their third parties. There would be an ongoing responsibility for vendors to, or the institutions to manage their vendors.

And we want to look at how this supervisory expectation can interact with this Good Housekeeping seal of approval.

And one of the issues is, you know, do we want to send vendors back periodically to be recertified? Does technology, when technology changes, does that need to be recertified? And how would that affect ongoing management?

Now, the good news we think from this perspective is that it allows the industry working with regulators to be very flexible in their approach. We think it alleviates some of the cost pressure, some of the operational and regulatory uncertainty that financial institutions may face when they want to partner

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with a third-party vendor.

We also believe that it can provide some certainty to tech companies and allow for a more dynamic, competitive marketplace for technology at the community bank level in particular.

So that's our request for information on a standard-setting organization. We're happy to take questions.

But we'd like to talk real briefly about what we're doing on the other side of that. So that's the initiative that we've run this year to increase third-party onboarding to make it more effective for community banks to innovate.

On the supervisory side, we kicked off our first tech sprint in June. And what we're working on in that context is, "Can we develop supervisory technology that, regardless of data structure, data format, can access bank information on a more regular basis, at a more granular level, and allow us to run analytic

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tools against that data set?"

Now, what I think is interesting about the rapid prototyping competition is it's not your standard government procurement. You know, we didn't list off 1,000 acquisition requirements. We didn't manufacture or architect the solution in advance.

What we did, we invited about 30 technology companies to come in. And we said here's our problem, here's our challenge. We have 85 percent of the financial information for our institutions is spread across multiple core providers. The data formats, data structures could be different across all these institutions based on their, who they're working with from a core standpoint.

We need to get access to that information on a more regular basis so that we can review it for institution specific, safety and soundness concerns, and so that we can conduct horizontal reviews to determine whether

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there are challenges in any particular region or whether we're seeing systemic challenges across the entire enterprise.

Now, we're not trying to create a continuous monitoring system here. Our institutions don't change that much. And for large banks, we already have very effective day-to-day interactions and access to data.

Our goal here is to allow a more granular review for community banks that want to voluntarily participate in this activity.

We think by focusing on specific components of their spreadsheets, of their financial data, we can start building that supervisory technology that ultimately enables us to make the Call Report obsolete.

And if you saw the Chairman's op-ed in the American Banker in that June timeframe, she goes into much more detail about that.

And as you all know as supervisors, you know, by relying on that Call Report and

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relying on that 12- or 18-month exam, we have a very point-in-time supervisory system. As the Chairman said, the Call Report is like going to the doctor to get a test run, and then four months later you get your results. Well, we want to know what's happening in the meantime.

And we believe if we're pushing for a more dynamic system, financial system at our institutions where banks are offering new and innovative products and services where they're partnering with technology, we have to have a supervisory system that matches it. And the rapid prototyping competition is our first step in that process.

I've said if, I've said before that if getting rid of, or making the Call Report obsolete is, you know, going to the moon, you know, we're at Apollo 1. We actually may be in the Mercury phase of this effort.

But you've got to take that first step, see where you can go. We'll learn lessons

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and produce a prototype hopefully by early next year. The first quarter next year we'll have a working prototype based on the way the rapid prototyping competition works.

Again, we lay out the solution set. We lay out the challenge set. And our competitors propose solutions.

We had about 30 competitors to start. We ended up with about 15 or about 30 concept papers. We're going to cut that number down. Very soon we'll announce where we're at.

And then those vendors will have 180 days to produce working prototypes. So this can't be back of the envelope or, you know, pie in the sky technology theories. This has to be things that we can implement within 180 days. So we're hopeful that we'll see very successful prototypes at the end of the competition.

So that sort of summarizes where we're at from a Tech Lab perspective on the Chairman's innovation efforts. Happy to take questions on

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any one of those or discuss any other matters related to that.

MR. DAVIS: Great, does the group have any questions for Brandon? There's no hands raised, so if you have a question, just go ahead and chime in.

MEMBER HALL: Hi Chad, this is Melanie Hall. I can't really even figure out how to raise my hand.

(Laughter.)

MEMBER HALL: So -- you would think after six months of doing these virtual calls I would have figured out virtual hand raising, but --

MR. DAVIS: Seems like every platform is different.

MEMBER HALL: It does -- I'll go ahead and turn on my video too and figure out which camera I have on. It's okay. So Brandon, what has the feedback been? How -- how has industry responded? Particularly -- particularly to the

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Call Report stuff? We know that certain states collect more regular information from their banks than the Call Report. How -- how has the general reaction from industry been? Because I know during COVID times it would have been wonderful to get some additional information. And it was challenging for them to kind of produce that in a -- in a one-off fashion. Particularly at the state level, we -- you know, we regulate non-bank entities. And so the Mortgage Call Report, for instance, gives us tremendously good data around the mortgage side of things on non-banks. But it -- it can be very difficult to get mortgage numbers and it's specific to -- to depositories. So I am just curious how the industry's reaction has been to this and what -- where you think some of the sticking points might be.

MR. MILHORN: Yes, I -- so just for -- for background, you know, we didn't start off with trying to recreate the Call Report with -- with technology. Our goal here was to focus on

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particular components of a financial institution's health and try to gain access. We haven't released the -- the specifics of the competition. But we're not trying to boil the ocean and recreate the Call Report from the -- from the very beginning.

We -- we -- you know, we do think that there's some benefit that -- that we can get from focusing on much more granular data on a more regular basis. The theory -- my theory being that if we can get more access to -- to granular data on a more regular basis, that it will eliminate some of the need for more detailed data on a -- on a quarterly basis. I think we'll need to see how the prototype develops. You know, obviously we're not -- we're not going to mandate that institutions participate. We're going to look at the prototype. We're going to make sure we understand how it's operating. We're going to -- we'll probably pilot some initiatives in this area next year to see if banks are willing

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to -- to participate. We got good feedback from our vendors. The -- and the good news is, there are several institutions that already want to partner with them to help test the -- the prototype. So we're -- we're -- we're you know, cautiously optimistic that we're -- we're moving in the right direction.

I think the largest -- the biggest challenge really we're going to face in this area is -- is data format, data structure. It would be easy for us to say, all right, if you want to participate in the system, we need you to format your data in this way. My concern always on data formatting mandates is it can be incredibly expensive. It transfers cost to the private sector, and potentially limits innovation as opposed to supporting innovation. So we want to see in this first test -- and I think really, that's the biggest test in this rapid prototype competition that we've got going on right now is can we -- can we access data differently?

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You know, what we didn't say is, we want to pull it all in and dump it in the FDIC. We didn't want to -- we said, how can we best run analytic tools against it? Does that mean it needs to be in our system? Does that mean it needs to go through a data management layer? Or could we access it where it lives at the -- at the banks, or with their core providers? But I think that will be the biggest challenge. And we've asked our vendors to come up with solutions in that space and we'll see how far it gets us.

MEMBER HALL: Well, I'll just tell you that we'll be very interested in how that goes because it's something that CSBS has been struggling with on the non-depository side for a long time around what the data standard might should be around, for instance, mortgage loan files when you're reviewing them from a technological perspective and how -- how all of that data comes into the system and the way that, if the data doesn't come in consistently, then it

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cannot produce good results. And so that -- that really has been a significant challenge that we have been trying to work through for years. So it will be interesting to see what solutions your vendors come up with. We'll certainly be very, very -- very cautiously optimistic for you.

MR. MILHORN: Yes, and another thing that we've -- we've talked about with our vendors, you know -- the -- the -- one of the great benefits of the Call Report is that it's GAAP compliant. Right? There's -- there's a -- there's an ability to rely on that from a -- from a supervisory standpoint.

What we're looking at, at least initially I think, with the rapid prototyping tool -- or with the -- with the prototype, is more of an early warning system as opposed to a -- a -- an accounting-based testament to an institution's health. And I think if we can start with that conceptually, it gives us a little bit more flexibility on data quality to

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work with the -- you know, basically, I see it as a mechanism for continuing to engage with institutions. Hey, this is looking a little funny here. I wonder why that is. Or we see that you've added a new product or service. How is that impacting your borrowers? You know, those sorts of -- those sorts of engagements which are less formal, but I think ultimately could be more effective in identifying and mitigating risk early in a -- in a dynamic environment. So that's the -- that's our goal. Sort of build that first early warning system.

Now at the end of the day, if we want to get rid of the Call Report, or make it obsolete, we're going to have to get some additional data quality and data assurance in there. But, you know, let's say we'll start at step one. We'll see how far we get. And then we'll keep churning on the -- on the data.

MEMBER HALL: Don't give any of these old regulators on this call heart attacks by

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talking about getting rid of the Call Report, so

--

MR. MILHORN: That's okay.

(Laughter.)

MEMBER HALL: Thanks, Brandon.

(Simultaneous speaking.)

MR. MILHORN: -- We're going to make it better. Look, I mean, we can continue to rely on the Call Reports and our 12- and 18-month exams, but -- but if we want to move supervision forward, and we want to affect -- and we want to use that to affect innovation in the marketplace, we have to provide some cost-beneficial incentives for institutions to come on board. Right? We can make -- if we can help them become more efficient -- if we can reduce regulatory burden by using technology in our supervisory efforts, it brings them along. And it makes us more efficient in the process. I don't want to be less effective. I want to be more effective and technology can get us there.

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MEMBER HALL: Yes, I think -- I think that technology has tremendous capacity in order to make all of us more efficient and more effective if it's done correctly. And I think that it brings banks to the table if they think that they could potentially -- you know, if -- if you're using it for identified -- identification of high risk areas if they know that something else can be scoped out through that risk identification process. And that -- that lowers their burden over there, even if it increases their burden in some ways in higher risk areas. I think they -- it makes it seem like the process is more risk focused, and is better suited to that individual institution versus sort of being all over the place.

MR. MILHORN: And the good news is, the lessons we're going to learn in this -- in this competition could have potential benefits in other areas. Think of integration. Or technology integration at institution. Well, if

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I know how to pull data into a -- maybe it's a data management layer. If I can pull data into a data management layer and I can run software tools against it in a agnostic -- technology-agnostic environment, then I can also improve the way that community banks integrate technology into their operations. So we think that's a -- that's a potential downstream -- downstream benefit of the research we're doing here. You know, I always say from a -- from a -- our incentive as -- as supervisors, as regulators, is to be incremental. To look over the hood. But to be innovative, you've got to look over the horizon and that's what our tech lab is there to do. So if we can experiment in a safe environment with our institutions, learn lessons, move forward, then -- then that allows us to really innovate. You know, we wouldn't have stealth technology, right, if we had just tried to be incremental. So that's -- we're -- we're pretty excited about where we're headed there.

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MEMBER HALL: So Brandon, one final question. Sorry to monopolize everybody for a little while, but -- so when you're working with these target institutions, or these kind of volunteers, are they larger institutions? Regionals? Tiny banks? What size are we -- are we playing in the sandbox with?

MR. MILHORN: So our goal is -- our goal -- our primary goal is community banks. As - and as -- as the tech lab moves forward, as we get it fully established, you know, we want to see institutions working with their tech partners, bringing forward proposals just like this from a -- from a prototyping standpoint -- from a rapid prototyping standpoint, we've allowed the vendors to sort of propose their own institutions for a test. And that's the approach we've taken. We've got community banks of all shapes and -- and sizes there.

MEMBER HALL: Great, thank you Brandon.

MR. MILHORN: Thank you.

(Pause.)

MR. DAVIS: Great. Other questions for Brandon? Comments? Don't let him off here early.

(Laughter.)

(Pause.)

MR. MILHORN: So I guess the last thing I'd say, Chad, before -- before I run is, you know, we are partners with our -- our -- our state regulators -- at the FDIC in particular. You know, we work with each other on supervisory efforts. Our banks are managed and supervised by both. Please feel free to reach out. You know, Chad has my contact information. Bmilhorn@fdic.gov. I'd love to hear what you're doing in this space. I know CSBS has been working on -- on several initiatives in this area. We can be partners and move this -- there's no pride in authorship here. We can move forward together on these initiatives.

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(Pause.)

MR. DAVIS: Great. Brandon, thank you.

MR. MILHORN: Thank you.

MR. DAVIS: With that, unless there's any questions, we'll move to the next panel.

(No audible response.)

MR. DAVIS: Okay. Our next panel is from the Division of Risk Management Supervision. We have Director Doreen Eberley, Deputy Director of Operations John Vogel, and Associate Director of Risk Management Policy -- the Risk Management Policy Branch, Rae-Ann Miller. They're going to lead a discussion with the committee on state - federal coordination. And again, this is with all of our panels -- but especially with this panel, I encourage all of you to please -- please engage with us and have this be a two-way dialogue. So with that, I will turn it over to Doreen. Thank you.

MS. EBERLEY: Thank you, Chad. It

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has been really great to see everybody today. So let me say hello to everyone first. We want to talk a little bit today about our supervision program and the changes that we've made in response to the pandemic. We'll talk a little bit about off-site exams and the examination process. A little bit about the policy response, and then a little bit about the operational response, which gets a little bit more into examiner training and the technology challenges that we faced. And -- and then open it up for discussion. So we'll consider this first part just kind of our report out back to you. Similar to yours to us in the beginning, which was really interesting. Thank you very much.

So I'll kick it off with a little discussion about the examination program itself. Much like you, for the first couple of weeks of the pandemic, we just stopped. We felt like we needed to give bankers an opportunity to respond to the needs of their employees, their customers,

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their families. And then after that -- and we had some work to do ourselves. After that, we offered a continued pause in our examination activities. Whether they were in the planning stages or actually already in process in two-week intervals. And we did that for a few iterations.

During that period of time, we took the time to develop our own interim policies in our approach. We began completing examinations that were in process, figuring out which examinations in process we weren't able to complete -- and actually, there was only one. Without going on-site or getting additional information. And we began starting new examinations.

So since March 16th, the start of the pandemic, we've actually started and completed more than 700 examinations of financial institutions. And I do think, you know, some of the keys to our success of being able to pivot so quickly really related to the work that we

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completed over the past several years to leverage technology to conduct more examination work off site. Brandon mentioned this in his remarks that, you know, we had a goal of moving our off-site percentage up and doing a little bit more off site. We implemented some new examination policies last year to change the timing of our exam planning effort -- to move it up, start it a little bit earlier. Give examiners more time to prepare for an examination -- really think hard about risk focusing and what procedures they needed to perform. And also to spend time thinking about which of those procedures, then, could be performed off site, and which really needed to be performed on site.

And so I think the changes that we made -- not only in that effort, but in our technology efforts -- really helped to support that shift. On the technology side, you know that we've been piloting some products over the last few years. Our file image viewer for

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examiners to be able to obtain standardized imaged loan files from core processors, and view them in a viewer that -- that we built. We did that in coordination with our colleagues at the Federal Financial Institutions Examination Council Task Force on Supervision, of which the State Liaison Committee is a member.

We also have used WebEx to remote desktop in. And we've used some other technologies as well. And because we had actually done that work and started it a few years ago, we really were able to pivot pretty quickly. And I was super pleased about that. And we've been able to continue our exam program.

So I'm going to turn it over to Rae-Ann to talk a little bit about the additional policy changes that we've made in response to the pandemic, and then to John to talk about the operational changes related to training, onboarding, exam technology support, and our plans for conducting an on-site examination during this

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period should we find the need to do so. So, Rae-Ann?

MS. MILLER: Thanks very much, Doreen. I hope folks can hear me. I'm using various equipment here in my -- in my office. So yeah -- so Doreen mentioned some of the things that we needed to do to pivot very quickly and conduct our examinations on an off-site basis. And I would say, one of the things that -- that was a real big change in the beginning was just actually training and holding calls with the examiner corps when they're all working from -- from home. We're typically used to discussing things with them from VTC rooms, or they might gather in their field offices. So just having lines and the capacity -- especially in the beginning when we weren't used to things like WebEx and MS Teams and things like that. It was actually quite -- quite challenging.

So as Doreen mentioned in the beginning, we sort of paused things. And then

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we worked with our examiners to come up with a set of sort of tactical instructions. And we do the words on the page in my group on how to do the examinations. And then John's group -- and John can talk about some of the technical things and the tools that they were provided in the background. But basically, we -- we determined that with -- with Legal's assistance that we could do examinations off-site. As you know, we have a statutory requirement to do on-site examinations of institutions within certain periods of time. So we needed to establish that that was -- that that was appropriate. And we basically established -- and I'll talk about some longer-term policies that we have been working on for a long time to establish an extended definition of what it means to -- to conduct a full-scope examination. And so we implemented that rather quickly, which was to require examiners to document that a full-scope examination has been conducted by completing the

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core analysis decision factors within the primary CAMELS modules.

And so we did that very quickly. And we have a more permanent change I'm going to talk about in a minute. But so -- so that was part of us being able to make sure that we knew that a full-scope examination could be completed and that we have a consistent way of -- of knowing that. So we did that. And then we also indicated that -- for examinations that could not be conducted -- that we could not conduct a full-scope examination, that those examinations would be held in a -- in abeyance. And that the regional directors would keep an ongoing log of those examinations and return to those -- and we could talk about some of the statistics on those. There's very few, but in the beginning we certainly had a number of institutions that asked us to pause and then, if we're unable to resume, we were continued -- considering that an examination held in abeyance.

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For those institutions that were held in abeyance, we directed the regions to conduct a monitoring program for those institutions, which would be something -- you know, short of an -- of a full-scope examination, but requiring information and contact with those -- with those institutions. We also -- generally we talked about being responsive to institutions, understanding that they continued to have operational difficulties and being judicious in asking for information. We always -- judicious in asking for information, but particularly sensitive to the fact that their own employees were experiencing disruptions as well. And we talked about conducting meetings and, you know, sort of tweaking the definitions of when an examination start date would be. You know, there's no boots on the ground at the exam. So it has to do with contacting the -- the banker on the first day. And we also included discussions about -- for the case managers, about documenting

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concentrations as well. And as you know, the summary analysis of examination reports is a -- is a tool that the FDIC has used for some time. And we wanted to make sure that case managers were capturing concentrations appropriately.

And one of the things that came in handy was our training on concentrations and our focus on concentrations -- and our risk-focused approach to that section of the exam really came in handy because, as you know, some sectors of the economy that we were perhaps not focusing on, such as hospitality or restaurants and bars -- you know, the general leisure activities that at least initially were hit pretty hard, are not something that were on our radar screen beforehand. So having the ability to look at the exam concentrations page and -- and gather that information was very, very helpful to us.

And we also wanted to remind folks about the regional call-in process, which is a process that the regional offices have where an

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examiner would let the regional office know before filing the draft examination report whether the examiner is recommending a downgrade to that institution of a three or worse. And some regions have call-in procedures for other risk factors that they're tracking. And so we just wanted to remind folks to be on the lookout for those, and to make sure examiners are aware of those.

And then on a more permanent basis -- I touched on this earlier -- we have been for a long time -- and some of you worked on our examination modernization process through the -- through our FFIEC group. And we have been working on documentation issues as well as other processes -- examination processes that Doreen mentioned. And when we started this -- this work, like two years ago, we did observe in -- in -- differences between regions. And sometimes even within offices regarding documentation requirements of the examination. And we had very

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general documentation requirements for examinations. So we had been planning for a -- for some time to work on -- on standardizing those documentation methodologies. And during the -- during the pandemic, we instituted the change and require examiners to document that a full-scope examination has been completed by answering the core analysis decision factors in the -- the primary examination documentation modules. And you know, one of the things, you know, that this would help with is to serve as an internal control during this time of the pandemic. And in other words, we can document in this time when physical -- mobility of examiners is limited, that we have done a full-scope examination.

But, you know, to -- to Brandon's point earlier, you know, we are looking to modernize our examination and supervisory platforms. And at some point we would like to modernize and have a more so-called end-to-end supervisory process, rather than sort of a siloed

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set of systems that we use now to examine the bank, produce the exam, and then document the examination. So putting the policy in place where you have a standardized documentation process really helps to move to that -- to move to that system. And we found the same thing with examination planning where we instituted a -- a new -- a new process, as Doreen talked before, with increasing the amount of time that we provide for examination planning activities.

We also noted that this process of using the -- the ED modules certainly promotes consistency between -- for state examinations since the Fed has been using the ED modules for some time. And then I mentioned it does promote consistency and standardization across the division. And we did train and have continued to train on -- on this policy. We emphasized the difference between examination procedures and documenting the examination and the use of the ED modules. In other words, not every single

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procedure needs to be performed. Not every single procedure needs to be filled out. So we've been training on this.

And I think importantly, another thing that we've instituted in this -- in this process is a -- a team of experts from the regions, from the field, from the Washington office, from general safety and soundness in my group, and from the specialty groups. And we call it our SME group. And this group gets together and talks about best practices, talks about collaboration efforts, things that have been working in their regions or in their field offices. And from that, we've -- we've developed a set of best practices and procedures that we've been talking about with -- with the examiner corps, just sort of on a more general basis. So Doreen, I think I'll stop there. And I don't know if you want to go to John or turn it over for questions?

MS. EBERLEY: Yes, let's go to John

and then we'll open it up for questions.

MR. VOGEL: Hi, can you hear me, Doreen? I'm trying to get my video to start.

MS. EBERLEY: It's just a little bit murky. I'm not sure the right word. You want to try again?

MR. VOGEL: Okay. How about now? Does that sound a little better?

MS. EBERLEY: Yes. It does sound a little better. Thank you.

MR. VOGEL: Okay, great. And hopefully, the video will start in a moment. Anyway, so thank you for the opportunity to address the group. I'm pleased to talk about the areas Doreen mentioned, starting with our training efforts. You know, it was critical to us at the beginning of the pandemic to be able to maintain our robust training program, both in the classroom for our core school delivery and for our on-the-job training program, which is essentially an apprenticeship model where our

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junior examiners (audio interference) work with our more tenured examiners.

Let me start with Corporate University, our core school delivery. We decided that it was imperative that we continue the core school training (audio interference) in a virtual environment. So we reached out to our colleagues in Corporate University, and we converted all of our core schools. There are ten of them plus two orientation sessions to virtual delivery. It's a big undertaking but through our partnership with our colleagues in Corporate University and around the country, with our instructors, with our training coordinators, we were able to do that. We converted over 700 hours of classroom training (audio interference).

It was also important to us to make sure that we included our state counterparts in that training. Right from the beginning, we maintained our same level of commitment and we offered the states slots in our core schools.

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And to date, we have delivered 14 compliance sessions, which included (audio interference) state participants. And on the risk management side, we delivered 21 core schools with 140 state participants. So it's been successful. There's been some bumps in the road as our instructors learn new technology (audio interference) time/scheduling issues, but it's gone well. We will continue this virtual training through the end of the year and likely through July of 2021. (audio interference)

Some of the other challenges we've had (audio interference) reports is to be able to have that apprenticeship model where examiners are able to collaborate with each other. So our field supervisors have been really innovative in coming up with different ways to get engagement from the commissioned or newly commissioned examiners. They'll host (audio interference) training days and in the New York region it's a Tuesday training day, where -- I believe

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examiners around the region will, you know, share their expertise (audio interference) in the subject matter. They'll have team events where newer examiners will work with senior examiners on a particular issue. So it's been working. I will say that nothing beats being on an examination and working around the table with their colleagues, but they're doing the best that they can. By all accounts, it's been going well. Doreen and I meet with the first school participants and the fourth school participants. We chat with them virtually to see how the training's going. Thus far (Inaudible). So we're pleased, we're pleased with how the training (audio interference).

The other thing that we wanted to uphold are making sure that we have enough examiners to conduct our exams. So we committed to hire around 120 (audio interference) examiners each year, even during a pandemic. So it was interesting. We had just gone through a hiring

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event last year (audio interference). Also, we committed to hire some folks (audio interference) and, you know, it was very clear to us and our colleagues in the Division of Administration and other folks around the organization that we wanted to honor that commitment to the folks that we offered jobs to even though we were immediately on lockdown so to speak. So we were able to virtually onboard with the assistance of our colleagues - a group of examiners on March 31st. It went very well. Our folks from our CIO's office were able to get the equipment that we needed. They were able to do all of the security clearances, they were able to do all of the virtual onboarding that they needed to do. All the reports from our supervisors is in (audio interference). So we're very pleased to report that that that process continues as we do continue to hire, that we'll be able to do it virtually. So a lot of success there with a lot of help and support.

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Doreen mentioned the technology piece. So we were fortunate that we had started a while back endeavoring to do more of our examination work offsite so we had familiarity with a lot of the tools already. So we were able to make that transition fairly smoothly. There are some institutions that don't image loan files, but we've been able to be successful, they've been able to scan files and send them to us. We've used our EFX system, so banks can scan loans and submit them through that system. We've been able to use WebEx, MS Teams. We are now using MS Teams collaborative sites. So we've been able to, you know, be creative and undertake a number of initiatives to make sure that we can do our exam work safely offsite. Some of the banks use Citrix, so virtual machines where we can actually log in and look at these (audio interference) loan files and without any scanning and without any shipping of the documents. So it's been successful, but we -- you know, we fully

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anticipate that there may be a time where some of these tools won't work and we'll have to be creative. So one of the -- a couple of areas that we're exploring (audio interference) do we have contractors scan loan files, upload them to the (audio interference) service provider (audio interference) effectively do the loan review (audio interference) offsite (audio interference). Some (audio interference) scan before meeting. (audio interference)

So a number of undertakings in process, again. Thus far, we've been able to do our exam work, but we want to make sure that in the event that we do need to, you know, provide tools, that we're able to provide them.

Let me last mention that, you know, there will come a time that we have to go onsite, but we are working with the FDIC's contracted healthcare provider to make sure that we have the most effective protocols in place for our team members when they have to go onsite. Making sure

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the banks have (audio interference) proper protocols for cleaning and social distancing and we will make sure that our staff has the appropriate personal protective equipment and social distance (inaudible). So we know we'll have to do it at some point, but want to make sure we do it in the safest way possible. So let me pause there Doreen unless there's something you wanted me to address.

MS. EBERLEY: Let's see. I think we can open for questions. I will just kind of close the loop on the examinations held in abeyance. We did have -- it was fewer than two handfuls of institutions across the country that did ask to delay, and usually because of challenges with their own staff, either because staff were occupied taking care of children at home or family members or, in some cases, illnesses in the institution, and so operating with a reduced capacity. But I am pleased to say that within the last two months, we have gotten

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all of those institutions back on schedule. The institutions have been really -- they've been so great about working with us and scanning documents for us and taking the time, and even those seven that weren't to do it initially ultimately were. And so we actually don't have any examinations held in abeyance at this time. A couple of managed delinquencies due to hurricanes, you know, and that's the sort of the thing that, you know, we deal with every year in the course. We'll get those back on track towards the end of the year, but we need to give those institutions a little bit of time to recover from the hurricane damage.

And we're happy to open it up for discussion.

MEMBER LEARY: This is Ed in Utah. I probably have a question for John if you heard my introduction. We've gone through the hiring process. I know we're fortunate to be able to do so. But we were questioning what would seem

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to work post on-boarding. They would have their technology provided. I think we're comfortable with that, but it's the proverbial on-the-job training. Anything seem to work? You mentioned apprenticeship model, training days. Did that seem to work well in a virtual environment?

MR. VOGEL: It has and thanks for the question. It has worked well. A lot of the folks that we've hired recently have a lot of technical experience and technical capability so they're able to adapt to what was probably the way they learned before they joined the FDIC, so that's gone well. The scanning of the documents and being able to share those in collaborative environments has been very helpful. Our examiners - our commissioned examiners are able to gather a, you know, group of pre-commissioned examiners from around the region. I'd say not only (audio interference) but across field offices to give training benefits (audio interference) such (audio interference). It's

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worked well. Nothing -- no one will tell you that this is the way to do it always, you know, (audio interference) then but, you know, they've made it work.

MEMBER LEARY: Thank you. That is helpful for those of us about to enter that arena.

MS. ROY: This is Lisa. Chad had to drop off for just a second, so I just want to see if there's any other questions for the supervision panel today? Kevin, it looks like your -- you have a question?

MEMBER THOMPSON: Yes. This is -- Doreen, Mick Thompson, Oklahoma. This -- I think John may have answered it but I couldn't hear him very clearly. Do you have a schedule when you think you might be trying to go back onsite for examinations?

MS. EBERLEY: We do not, Mick. You know, we're planning to do as much offsite as possible while we're in the national emergency. But we are making a plan for those situations

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where we would have to go onsite.

MEMBER THOMPSON: We've -- the only thing we're doing onsite is I'm letting my EIC work with the bank, and if they want us to come onsite to do the exit, I'll allow one of my - my EIC to go on site and meet with their management committee or their board, but only for -- just onsite for an hour or two. That's the only change we've made to what we're doing with the FDIC.

And the other thing I wanted to ask you is that there was some talk about some of the small banks that didn't have their files scanned, that the FDIC was considering maybe sending a crew in to scan those documents for them. Has there been any more dialogue on that?

MS. EBERLEY: We are right now considering our options, Mick, and John did mention this. I'm getting a little bit of feedback. I don't know why. The options include -- we have our own high-speed scanners that we

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use on examinations, and so one of our options is to actually ship those to institutions for their use to scan whatever documents we need. If they don't have high-speed scanning, you know, capability within their office buildings.

Another option would be to send somebody to scan. And, you know, whether that would be an FDIC employee or somebody that we hire to do it, that's another option we're exploring. You know, we've had really good luck with institutions that do scan. It's just worked really well either to use, you know, remote desktop technology on a dummy terminal, or to use the file image viewer, or to just receive scanned loan files through EFX, as John mentioned. That has all worked really well, but we still do have about 40 percent of our institutions that don't scan. So far almost all of those have been able to scan some files and send them to us. So we've just had real good cooperation from the industry. And, you know, this might be a time where the

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industry starts to pivot to actually moving to more imaged loan files as a way to make the examination process easier. We'll see if this creates a change.

MEMBER AFDAHL: Doreen, this is Bret Afdahl in South Dakota.

MS. EBERLEY: Hey, Bret.

MEMBER AFDAHL: Say, not a question so much as maybe a thought for the future -- area for additional discussion. You know, in talking with other states, I think like there are some differences in how maybe FDIC examiners or field staff are treating classified assets or exclusions to classification. One example would be current year operating loans for an ag customer, you know, so in addition to excluding inspected grain and livestock, there are some instances of the current year operating note being excluded, but it doesn't seem like that's widespread. I know it's been the case in our field territory here and I think in North Dakota,

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from talking with Lise but, you know, I don't think it's very widespread. So I think it's just an area to discuss going forward to make sure we're consistent in how we're treating those to the extent we can be. I mean each agency is going to have their own approach to different things, but just wanted to maybe have future discussion on that to make sure we're on the same page at least.

MS. EBERLEY: Sure. Thanks for that comment, Bret. I will share with you that we are working through the Federal Financial Institutions Examination Council Task Force on Supervision to have discussions about the kinds of questions that we're hearing from examiners, if we're hearing questions from examiners, or from the industry about where additional guidance or instruction may be needed.

We are going to be doing some internal training on the examiner instructions for examining a bank in a pandemic, and we made those

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available publicly so institutions could see the instructions we're giving to examiners, which is really to, you know, consider a bank's risk management practices, their approach to responding to the pandemic, and understanding that this is an exogenous shock, you know, that management was handed that may be delivering financial problems to the institution.

The flexibility we would exercise is on the management side and the supervisory response, but the rules for recognizing problem assets, you know, those are still in place.

And so we'll continue to have conversations. Rae-Ann mentioned the call-in memo is one way that we plan to make sure we have some consistency across the board. But we'll continue these conversations, too, with the Task Force on Supervision. So I would ask you if you hear anything -- and Tom, maybe you can pass this around as well -- you know, please share it with Tom Fite, and he reports out on behalf of the

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states at the Task Force on Supervision every month when we talk about this.

MEMBER AFDAHL: Sounds good. Thank you.

MS. EBERLEY: Yes. Thank you.

MR. DAVIS: Kevin Hagler, I think your hand is raised. Go ahead if so.

MEMBER HAGLER: I hope you can hear me. Just kind of going back to the training and development comments that I think John was talking about. I'm just kind of curious with the hiring at the FDIC, are you pulling people straight from college; are you getting folks from the industry; or are you -- and/or bringing folks -- you know, bringing back retirees or examiners like that? I was just curious. One of the issues -- you know, and we, too, may have an opportunity to hire one or two folks in the foreseeable future. It will probably be the college level -- it almost certainly will be. But I was curious if that changes any of your

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approach with the onboarding process and the training process. I worry about, you know, building that regulatory culture with someone right out of college, which may not be as difficult a challenge with somebody from the industry and certainly shouldn't be a big lift bringing back a former retiree. So I didn't know what kind of --where the pool was coming from that the FDIC was drawing from, or if it's a mixture, if you had some thoughts on the various approaches that might be applied.

MS. EBERLEY: Sure. Our hiring is primarily at the entry level. That's the 120 that John mentioned every year, and we have some additional entry level hiring this year for cybersecurity analysts and loan review analysts, so targeting folks right out of college. And, you know, the culture, it's an interesting question, and it's one that we've had an awful lot of conversation with our field supervisors about, is how do you create that environment and

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the opportunities for the kind of interaction you would have if you were in the office where you just bump into people and you talk, or you're in the bank and you're sitting around the boardroom table.

And we have tried to use the tools that we have available to help facilitate that that John mentioned. And I think John may be having some technical difficulties and dropped off, but he mentioned the training Tuesdays, you know, where everybody can tune in at once and get trained on the same subject, and that is alternated around offices so that not one office is responsible for completing all of the training.

We've had training teams where, you know, a commissioned examiner or two take a team of trainees to work with them. And it's not just to train them in the skills of becoming a commissioned examiner, but also in the culture of the FDIC and their field office and understanding

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that. And so the field offices, we probably had more meetings these days than normal, but that's also been helpful, I think, in getting our new employees seeing the faces of the people they work with, hearing from them, kind of understanding the vibe and culture of the office, and we've really encouraged that, that our field supervisors hold those sort of meetings, have folks use their cameras, you know, make sure that we're talking and checking in on each other and seeing each other. And I think that's been relatively helpful and, you know, John mentioned, and it's true, that certainly the folks that we're hiring right out of college are more accustomed to using technology than we are, and so this isn't that weird for them, you know. They're able to adapt to that and understand it. Thank you.

MEMBER HAGLER: Thanks, Doreen.
That's very helpful. I appreciate the comments.

MR. DAVIS: So I don't believe there's

any more hands raised currently, so if anyone else has a question, please feel free to just chime in. Okay. Hearing none, thank you --

MS. EBERLEY: Thank you.

MR. DAVIS: -- for the presentation. We'll move on to our next panel. Our next panel will be on financial inclusion efforts. It will be Elizabeth Ortiz, Deputy Director of Consumer and Community Affairs, and Emerson Hall, Associate Director of Community Affairs. And I will turn it over to both of you now. Thank you.

(Pause.)

MR. DAVIS: Liz, if you've started talking, I believe you're muted.

(Laughter.)

MS. ORTIZ: I'm sorry, I was brilliant and you all missed it. Anyway, all I said was that I was going to try and be a zippy and energetic presenter, and it's hard to really do that if you're on mute. So let me take another crack at it. All right. Next slide, please.

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All right. First, Emerson will give you a brief overview of the five areas of economic inclusion opportunity that serve as the foundation for our work in Community Affairs. And you may have noticed that this presentation uses the terms "financial inclusion" and "economic inclusion" interchangeably. Financial inclusion really focuses on the connection between a consumer or a business to the financial services system, which I think of as quite simply as having a relationship with a bank. And economic inclusion is sort of broader and considers the individual's participation in the economy as a whole and takes into account things like employment, for example. Now our Chairman has said, and I am paraphrasing since she's here and can certainly correct me, that having a banking relationship is the equivalent of becoming a shareholder in the U.S. economy. And so since she has so eloquently combined these two ideas into a single sentence, I think we can move

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back and forth pretty easily between these two terms today as well.

After Emerson takes you through our economic inclusion ladder, I'll come back and talk a little bit about where we are right now in the intersection between the needs of consumers, which have been highlighted by the unique challenges of this pandemic, and the opportunity for financial institutions to be helpful, and how we at the FDIC are trying to connect the dots between the two. And after that, I'll probably expand the frame a bit just to consider the broader opportunity to expand account access as we think ahead to next year and build on some of the lessons we've learned from our extensive outreach over the past several months. And then Emerson will conclude our presentation and provide you an overview of FDIC's resources including resources for banks that are designed to help improve financial capability, our Money Smart program, which is really the foundation for

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a productive and successful banking relationship.
Over to you, Emerson.

MR. HALL: -- and sustainable products and services from insured depository institutions that help individuals meet their financial goals. Furthermore, the advancement of economic inclusion is core to the FDIC's mission, which is to maintain stability and public confidence in the nation's financial system. Economic inclusion is enhanced when banking systems effectively meet the financial service needs of the broadest possible portion of the public, and consumers take advantage of the opportunity to begin a banking relationship.

Our initiatives are creating sustainable and positive connections between banks and a broad range of customers. We promote the benefits of safety and soundness of financial institutions, which supports the well-being of bank customers and communities they serve. The economic inclusion ladder represents the

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progressive nature of economic inclusion. Moving up the ladder, customers gain knowledge, resources, and experience through relationships with insured depository institutions.

The bank, in turn, grows the relationship across products and services beginning with financial education and affordable saving and transaction accounts. With the help of a banking relationship, a customer builds both credit and savings that enhances stability and resilience for individuals and families. Ultimately, many choose to purchase a home or expand a business.

The first step in the ladder promotes and supports quality financial education through innovative programs to build financial capability and the development of educational resources responsive to the needs of low to moderate income individuals, emerging small business, and diverse households and communities.

The second step in the ladder is

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insured deposit accounts initiative advances access to and the use of affordable and sustainable insured deposits with transaction and savings accounts.

Household credit and savings is the third step in the ladder. This seeks to improve financial stability and resilience for consumers by encouraging affordable savings and credit solutions from banks and community partners.

As individuals advance up the steps of the economic inclusion ladder, it's possible that many consumers may save enough to purchase a home. So our fourth step is to encourage depository institutions to make available prudently-written affordable mortgages, credit for low to moderate income households. Here we're placing particular emphasis on community banks' ability to take advantage of federal and state programs designed to expand home ownership opportunities.

The fifth step is supporting small

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business startups and the expansion of small businesses. We encourage financial institutions to prudently seek methods to strengthen access to financial services for emerging entrepreneurs and small businesses. So Liz, I'll hand it back over to you now. Thank you. Next slide, please.

MS. ORTIZ: Thanks, Emerson. I wanted --

MR. DAVIS: Liz, I think you may have frozen on us.

MR. HALL: Okay. So let me kind of -
- I'll jump in until she comes back here then.
So this is --

MS. ORTIZ: Can you guys hear me?

MR. HALL: Yes. Hello?

MS. ORTIZ: I'm sorry. Is my connection not working well?

MR. HALL: You had froze up just for a second there.

MS. ORTIZ: All right. I'll try again. So we focus on partnerships, and we

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develop additional resources to make building those connections easier, and then third, whether the resources are our Money Smart program, or our online affordable mortgage lending center, or our guide for community banks that want to work with CDFIs, we want to share the success stories from banks and community organizations that have used our resources to work together. And we used to do this in person, but now we are doing it online through webinars, our website, and our now virtual local networks.

Now let me turn to what's happening right now. The pandemic has impacted consumers and small businesses in ways that are unprecedented. And while no one could have predicted a global pandemic, I think we could easily have imagined which communities would be hit hardest by it. These are the same communities that were hit hard by the foreclosure crisis 10 years ago, and the same communities challenged by the digital divide, and the same

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communities that have the least connection or even no connection to the mainstream banking system.

And so to help, the FDIC developed COVID-19-specific web pages that include materials and guidance for consumers, banks, and businesses. As important, the web pages link directly to partner organizations and their websites making it easier for consumers and businesses to find needed information and resources offered by an array of federal partners.

As folks know, the CARES Act included two major programs for financial assistance, the PPP for small business, and the EIP for consumers. For the PPP, FDIC worked with the SBA as well as other bank regulatory agencies to get information to the banks who needed to know how to enroll themselves in the program if they were not already SBA-approved lenders, submit applications for their small business customers

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and most recently, how to process the documentation required for loan forgiveness.

For the EIP program, economic impact payments, getting financial assistance to consumers meant you had to solve the problem of paper checks. And I think in a rare moment of alignment across government and industry, non-profits and consumer advocates, everyone agreed that getting financial assistance to consumers quickly and safely meant doing it electronically, which meant that consumers without a bank account needed to get one.

And so the FDIC developed its own web page that provides consumers with connections to banks that offer ways to open accounts remotely, online or through a mobile app without going to a bank branch, and allowing them to receive their EIP payments quickly and safely. We worked with partners at the ABA, ICBA, and BankOn so that consumers could easily find a bank and a bank account that would work for them. And in a first

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for us and a first for the IRS, too, I believe, there was a link and an FAQ on the IRS's website that took those individuals interested in a bank account back to the fdic.gov resource page, and this resulted in over a half a million new visitors to the FDIC's website.

And we have continued to work with the IRS. Just recently, we have partnered with them to reach the up to nine million individuals who have not yet received their Economic Impact Payment for which they are eligible. And working through our Community Affairs network of banks and non-profit organization partners across the country, these are organizations that are working with consumers. We were able to connect the IRS to hundreds of representatives from community and government organizations including those who work with many of the hardest to reach individuals and families.

These groups joined our webinars as well as our follow-on activities. One of the

organizations that tuned into these webinars and participated in our outreach with the IRS was the Commissioner of the Division of Financial Institutions in Hawaii. And in response to our call to action, she sent informative messages through social media to non-profit organization or partners across the state who, in turn, shared the information with consumers at food distribution locations, child care agencies, and shelters. She also included a call to action in her state governor's weekly update which is shared across all of that state's agencies.

And this is what I call kind of the network effect and, of course, our network of partners includes you. Your networks include agencies and non-profits who can then directly reach out to individuals and families who need information and then, in turn, can take the action they need to take in order to access the assistance they're entitled to. And of course, this is just one example of ways that we can work

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together. Next slide, please.

So just to reiterate, we see an account relationship as foundational and with a quality banking relationship, consumers build confidence as they save and qualify for credit to meet their goals, whether it's purchasing a home or starting a business. And something many persons may have taken for granted, at least until just recently, having a bank account makes it simpler and easier to get funds quickly, safely, and directly deposited into your bank.

So how do we make this happen, especially for those who need it the most? I think there are three things that we can all do. One is increase the number of banks offering sustainable low-cost transaction accounts. Two, work to strengthen the local coalitions that reach people without a bank account but who are positioned to benefit from a banking relationship. And three, expand our communications that can raise awareness of

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banking opportunities and benefits among those that don't yet have a banking account.

And these three efforts reinforce each other. The more banks that offer consumer-friendly accounts and participate in local coalitions or financial empowerment programs or the FDIC's Alliance for Economic Inclusion, the stronger those organizations are. And the more opportunities that are made available to consumers and the more that we promote them, the more consumers can take advantage of them. And of course, the more success stories we have, then that creates the incentives for more banks to join the effort, and so the cycle continues and gathers momentum as we go.

The FDIC is doing its part through our Community Affairs teams. We have been working with banks and with community-based coalitions for years. We support BankOn coalitions as well as our own alliances for economic inclusion. And in January, we're going to pilot a targeted

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public awareness campaign in three cities to learn what messages resonate for consumers and what channels work best to reach them.

So I would like to ask you today to just think about the following: if you could consider the opportunities that you have to encourage banks to learn more about accounts that work well for those who don't yet have a banking relationship. Can you help us connect banks to local coalitions that will help connect them to these consumers, working through our Community Affairs teams throughout the country? And lastly, can you work with us to get the word out to both banks and consumers about the benefits of a banking relationship? And to the extent that you are already engaged in this effort, let me know so I can share your successes with others and inspire them to do the same.

I want to thank everyone for the opportunity this afternoon to share my enthusiasm for expanding account access. I'm going to give

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the floor back to Emerson, and he's going to talk to you about financial education and wrap us up.

MR. HALL: Thank you, Liz. Really appreciate it. So financial education is central to the FDIC's efforts to expand economic inclusion and promote confidence in the banking system. Effective financial education helps people gain the skills and confidence necessary to sustain a banking relationship, achieve financial goals, and improve financial well-being.

Through Money Smart, the FDIC offers non-copyrighted, high-quality free financial education resources for banks and other stakeholders to train people of all ages and small business owners. In response to the pandemic, we pivoted outreach early in the year to help Money Smart Alliance members use Money Smart tools remotely. We have seen banks take Money Smart and create YouTube videos for their markets, engage high school students for a summer

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competition to customize Money Smart for their market while also conducting sessions virtually. We share best practices with bankers that are considering ideas of how to use Money Smart in their community.

For starters, early this year we highlighted a bank that supported a community reintegration program for non-violent offenders. The bank uses Money Smart to help the individuals learn useful financial strategies to assist with their transition into society. The bank and its community partners recognized the value of the program, and they elected to expand their work to reach more individuals.

We have seen other banks be successful about having partnerships with community-based organizations in other communities as well. Banks use our older adult curriculum in collaboration with senior centers, but also more recently and ongoing, as a resource to enlighten the adult children of senior citizens. We have

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seen the curriculum be used as a resource for bank blog posts and other bank-produced messaging for consumers.

Banks can also reach out to their local SBA district office to explore opportunities for delivery of Money Smart for Small Businesses.

We're seeing successful, virtual training sessions underway during the pandemic. We're seeing these on a regular basis.

We encourage the expansion of engagement in states between state treasurers, bank trade groups, bank education officials, and state banking supervisors on developing and implementing statewide initiatives to support school-based savings programs.

The FDIC can be a resource as we have a technical assistance network for banks interested in starting or growing a youth savings program as well as proven successful strategies banks can use to get their programs started. We

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have 80 banks throughout the country that participate in our youth banking network. We provide resources for banks that have an interest in training their staff through our train-the-trainer initiative. We provide connections through the Money Smart Alliance and our youth banking network free, and they're easy to join.

We know that financial education is most successful when tied to real-life experiences such as buying a home, starting a business, or beginning a banking relationship.

For banks that want to integrate any component of our Money Smart program into their offerings, we're delighted to help and provide examples of those that have done so successfully.

We do look forward to continuing our working relationship with many of you and establishing meaningful working relationships with more of you in the future. We want to thank you for your attention this afternoon and your time, and we'll be pleased to answer any

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questions that you might have.

MR. DAVIS: Great. Do we have any questions from the group? I think there might be a hand or two raised from the last session, so I won't call you out individually, but if you did intend to raise your hand this time, please just go ahead with your question.

(No response.)

MR. DAVIS: Okay. I think that may wrap up the session then unless anybody comes forward with a question quickly, but not seeing any. So Emerson, Liz, thank you very much, appreciate the presentation.

MR. HALL: Thank you.

MR. DAVIS: Before we conclude, Director Gruenberg, did you have any closing comments?

DIRECTOR GRUENBERG: Thank you, Chad. Just to say that I very much appreciate the participation of all the Commissioners, and I highly value the comments that they made. And

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it does seem to me that the level of uncertainty going forward for the coming year is extraordinary. And from my standpoint, for reasons that I think we all understand, 2021 may be a more challenging year for the banking system, even more challenging than 2020 was, which to me, only underscores the importance of our working relationships at the state and federal level. So I very much look forward to our ongoing interactions and mutual support during a pretty challenging time. Thank you, all, for taking part today and thank you, Chad.

MR. DAVIS: I'll turn it over to the Chairman for closing comments.

CHAIR McWILLIAMS: Thank you, Chad. Thank you, Marty. Thank you to all the staff. Thank you, Commissioners. Truly, to say that we couldn't do our jobs as holistically as we do without your efforts on the ground would be an understatement. The visibility that you provide to us for a number of economic issues that your

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banks are facing, as articulated today in a number of discussions, is a valuable tool for us to be able to serve those communities, examine those communities in tandem with you, and to continue to think about the banking system more holistically and in a way that makes sense both from the state perspective and the federal as well. So thank you for your participation today. I know how busy you are. I know you have plenty of things to do on the ground.

Again, my sincere apology that we have not been able to do this sooner, but we promise to stay on time now and meet more often. And I have to tell you I personally miss seeing you during my state visits. So the virtual ones have been fine but not as good as seeing you in person with the banks that you supervise and being able to get that feedback. So I can't wait for that to continue, and I will just say I wish you my best. In the meantime, stay healthy and thank you for your collaboration and cooperation with

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us. And with that, I will say God bless you and see you soon. Thank you.

(Whereupon, at 4:53 p.m., the above-entitled matter was concluded.)