

The Meeting of the Advisory Committee of State Regulators

of the

Federal Deposit Insurance Corporation

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation Via Webcast

October 6, 2021 - 1:00 P.M.

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

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

Thomas C. Fite, Director, Department of Financial Institutions, State of Indiana, and Mick Thompson, Commissioner, Banking Department, State of Oklahoma, were absent from the meeting.

Martin J. Gruenberg, Director (Appointive), and Michael J. Hsu, Director (Acting Comptroller of the Currency), attended the meeting.

Corporation staff who also attended the meeting included: James L. Anderson, Lisa D. Arquette, Bobby R. Bean, Amber B. Beck, Sylvia W. Burns, Tiffany Cochran, Kymberly K. Copa, Bob De Luca, Debra A. Decker, Doreen R. Eberley, Diane Ellis, Gerald M. Evans, Eric S. Fultze, Patricia S. Gunneau, Martin D. Henning, Daniel S. Hoople, Nicholas S. Kazmerski, Steven Key, Christian L. King, Glenn A. Kivlen, M. Anthony Lowe, Kathryn J. Marks, Ryan McCarthy, Sultan Meghji, Brandon Milhorn, Arthur J. Murton, Shayna Olesiuk, Rowie M. Pangilinan, Mark E. Pearce, Nikita Pearson, Harrel M. Pettway, Nicholas J. Podsiadly, Ariana L. Rambuyan, Ryan M. Rappa, Lisa K. Roy, Betty J. Rudolph, Jarrod Sanders, Camille C. Schmidt, Michael Shaheen, Nefretete A. Smith, Jocelyn Sutton, Mona L. Thomas, John F. Vogel, and Katrice L. Yokley.

Introductory Remarks

Chairman McWilliams opened the meeting by welcoming the Committee members. She also welcomed Charles Vice, Commissioner for the Department of Financial Institutions for the Commonwealth of Kentucky, as a new Committee member. Chairman McWilliams then introduced Doreen Eberley, Director, Division of Risk Management Supervision (RMS), who moderated the meeting.

Ms. Eberley invited opening comments from Director Gruenberg and Acting Comptroller Hsu. Director Gruenberg expressed his thanks to the Committee members. He emphasized the value of collaboration between the FDIC and state commissioners. Acting Comptroller Hsu also expressed his thanks to the Committee members. He noted this is his first meeting and that he looked forward to the discussion, particularly the roundtable about state banking conditions.

Next, Ms. Eberley introduced Nicholas Podsiadly, General Counsel, Legal Division. Mr. Podsiadly then made a statement concerning the Government in the Sunshine Act.

Discussion of State Banking Conditions

Ms. Eberley introduced a roundtable discussion of state banking conditions. Committee members discussed a range of issues, including the following:

Economic Conditions. Committee members generally discussed the economic conditions in their respective states, including unemployment rates and trends in residential and commercial real estate (CRE). Some members discussed these trends in connection with reports on COVID-19-related issues, including vaccination rates and shifts in the labor force resulting from increased telework during the pandemic.

Unemployment. Most members indicated improvements in their state unemployment rates since the prior meeting. Members also described similar labor shortages. Commissioner Kruse commented that many restaurants in North Dakota are reducing hours due to a lack of employees. She further noted that North Dakota is witnessing the workforce issues that are prevalent across the country, with an unemployment rate of 3.2 percent. Commissioner Leary stated that the Utah economy is performing well with low unemployment. Superintendent Allard reported that the rate of unemployment in Ohio increased from the prior month, but noted that Ohio's GDP growth rate mirrors the national growth rate. Commissioner Salazar indicated that the unemployment rate in Maryland is below 6 percent and that employers and bankers are reporting employment tightness, particularly with respect to information technology (IT) staff. Director Afdahl reported that South Dakota's unemployment rate is now below pre-pandemic levels at 2.7 percent as of July.

Real estate. Trends in real estate, both residential and commercial, were widely discussed. Members noted that they are continuing to watch CRE concentrations, but those who spoke to the issue indicated that the market is fairly stable. Commissioner Cooper noted that he is continuing to monitor all sectors, but that CRE seems to be holding up. Additionally, Commissioner Gonzales indicated that there are a small number of banks in Tennessee with non-owner occupied CRE in excess of 300 percent of capital, but he said that the system as a whole appears to be well diversified.

On the residential side, members reported a generally tight housing market and higher home prices. Commissioner Leary reported that median home values in Utah increased more than the national average. Commissioner Vice noted a strong increase in home prices in Kentucky, with lower supply and higher demand. Commissioner Hall explained that Montana has experienced

challenges with increased housing prices and lower housing supply. She elaborated that many of the state's new residents are employed in positions that allow them to work remotely for companies in other places that pay more.

Banking Conditions. Committee members described generally stable banking conditions in their states. Members also reported stable asset quality, but comments reflected close monitoring of certain sectors, such as agriculture in states facing drought conditions and CRE.

Most members noted the high liquidity in their states' institutions and the associated capital and earnings impacts. Members said that the increases in deposits and asset volumes are diluting Tier 1 Capital ratios and earnings, though none reported institutions falling into undercapitalized status as a result. Commissioner Gonzales said banks that have experienced a decline in their Tier 1 Capital ratios have reduced their risk profiles, as increases in deposits continue to be held as cash or in investment portfolios. This, as well as a low-yield environment, has resulted in net interest margin compression.

A common concern discussed by Committee members was low loan demand, causing negative, stagnant, or low loan growth in a low interest rate and high liquidity environment. Some members noted that these conditions could lead to asset quality issues in the future. Commissioner Kruse said she has "started the messaging about how bad loans are made in good times, and warning against relaxing underwriting standards." Commissioner Cooper replied to Commissioner Kruse's remarks by noting that a reach for yield historically results in lowering credit standards.

Three members described de novo activity in their states with report of one bank being opened in May. Members also described merger and acquisition activity within their states, and Commissioner Hall noted that merger activity has started again after a pause due to COVID-19. Two members touched on the number of branch closures, some of which started as temporary closures and then became permanent branch closings.

Several members discussed climate-related issues in their states. Commissioner Kruse noted that agriculture is the biggest part of North Dakota's economy, and that sector has been challenged as the state experienced both flooding and drought in the last year. She further noted that government assistance has

been effective in mitigating the economic effects and the overall impact on banks. Director Afdahl reported that only 7 percent of South Dakota has no drought and that cattle producers and operators have been heavily affected. Commissioner Salazar indicated that Maryland is participating in a climate change task force established by the Conference of State Bank Supervisors (CSBS) and led by New York. The group is working on tools to help other state regulators with respect to climate-related issues and information for their supervised institutions.

Cybersecurity. A number of members generally indicated that cybersecurity continues to be a concern for regulators and banks, although there was not significant discussion of specific issues. Commissioner Leary stated, "Cybersecurity, keeping up with emerging threats and bad actors, is a constant challenge. Utah bankers continue to devote more time and resources to this area."

Commissioner Holstein noted that West Virginia is currently using a ransomware self-assessment tool to assist banks in becoming more self-aware of the risks as ransomware continues to be at the forefront. Mr. Ryan noted that CSBS has issued cybersecurity tools and a media kit for state supervisors to help promote National Cybersecurity Awareness Month among bank customers, state consumers, and bankers.

COVID-19 Pandemic. Nearly all members described the COVID-19 pandemic's impacts on their respective state economy, banking industry, and bank examination operations. Members noted that they continue to assess the ongoing impact to business operations for the state departments and financial institutions.

Examinations. Nearly all of the members commented on their states' bank examination operations. Most of the members reported that their state was successfully conducting exams using a hybrid in-person and off-site approach. Many members noted that bank executives in their state valued face-to-face interaction with examiners. Several members also indicated that they were interested in continuing hybrid examinations indefinitely.

Innovation. Several members commented on innovations and developments within their states' banking system. Commissioner Vice mentioned that Eastern Kentucky University and the Kentucky Bankers Association will host a Bank Innovation Conference on

October 14, 2021, which will include FDIC Chief Innovation Officer Meghji as a panelist.

Commissioner Leary noted that one of the biggest issues for Utah bankers is meeting rapidly evolving consumer expectations. He noted that this is causing banks to partner with Fintech companies and that there is concern about what such partnerships mean for the banking industry. Commissioner Holstein commented that West Virginia is currently determining the best way to supervise and examine banks that make investments in Fintech companies. Commissioner Cooper reported that in June, Texas issued an industry notice affirming the ability of Texas-chartered banks to provide virtual currency custody services. He said that the notice has received a lot of attention from the media and industry.

Minority Depository Institutions. Superintendent Allard reported that there had been some very strong interest in minority depository institutions in Ohio. He noted that earlier in the year, the Ohio Bankers League, a trade group in Ohio, organized and sponsored the Prospective Diversity Director Symposium, an event focused on providing more diversity on Ohio bank boards. The centerpiece of the event was a panel of three former and current minority directors who shared their experiences in serving on a bank board. Nikita Pearson, Director of the FDIC's Office of Minority and Women Inclusion, opened the program. Superintendent Allard encouraged similar programs in other states.

Other Topics. Several members commented on the positive impact of increased communication and coordination with FDIC Regional Offices during the pandemic. Specifically, Commissioner Leary and Commissioner Hall stated that the San Francisco Regional Office has been helpful in coordinating efforts between the states during the pandemic. Commissioner Holstein stated that the pandemic has strengthened the West Virginia Division of Financial Institution's relationship with the Atlanta Regional Office. Commissioner Salazar and Commissioner Gallagher both expressed appreciation for the assistance received from the New York Regional Office during the pandemic. Commissioner Gonzales stated that he appreciates the working relationship between the Tennessee Department of Financial Institutions and the Dallas Regional Office.

Following the Committee member roundtable, Ms. Eberley introduced FDIC staff members to discuss national and regional observations. Shayna Olesiuk, Associate Director, National and Regional Risk Analysis, Division of Insurance and Research

(DIR), presented on the national economy and banking trends, including a summary of the FDIC's 2021 Risk Review. Following that, Camille Schmidt, Chief, Emerging Issues Section, Policy Branch, RMS, discussed trends in risk management practices.

FDITECH Update

Ms. Eberley introduced Sultan Meghji, FDIC Chief Innovation Officer. Mr. Meghji provided an overview of FDITECH's innovation program, describing its four key pillars of inclusion, resilience, amplification, and protecting the future. Mr. Meghji also provided an update on the Rapid Phased Prototyping pilot project and the FDIC technology sprint programs.

State-Federal Coordination

Ms. Eberley introduced the next panel discussion where she was joined by Mark Pearce, Director, Division of Depositor and Consumer Protection, to discuss lessons learned from the extended period of remote bank examinations and what bank examinations might look like after the pandemic. Following that discussion, Ms. Eberley introduced Martin Henning, Deputy Director, Operational Risk, RMS. Mr. Henning discussed cybersecurity risk management practices. In addition, he reviewed comments received in response to the computer-security incident notification notice of proposed rulemaking published by the FDIC, the Office of the Comptroller of the Currency, and the Federal Reserve Board in January 2021. Mr. Henning also expressed thanks for the continued participation of states with the federal banking agencies in technology service provider examinations. Mr. Henning then introduced Lisa Arquette, Associate Director, Anti-Money Laundering and Cyber Fraud Branch, RMS, who provided an update on the Anti-Money Laundering Act of 2020.

Community Bank Research

Ms. Eberley introduced Diane Ellis, Director, DIR, and Daniel Hoople, Financial Economist, DIR, to share an update on community bank research. Ms. Ellis provided an overview of the 2021 Community Bank Research Conference and expressed thanks and appreciation for the partnership with CSBS and the Federal Reserve in co-sponsoring the conference. Next, Mr. Hoople focused his presentation on how community banks' use of technology supported loan and deposit growth during the pandemic.

Minority and Community Development Banking Update

Ms. Eberley then invited Betty Rudolph, National Director, Minority and Community Development Banking, to provide an update on minority and community development banking. Ms. Rudolph explained that the FDIC's role in preserving and promoting mission-driven banks, which include 144 FDIC-insured minority depository institutions and 168 FDIC-insured community development financial institutions. She then provided an overview of the Statement of Policy Regarding Minority Depository Institutions that the FDIC Board approved in June 2021. Following that, Ms. Rudolph provided an update on the Mission-Driven Bank Fund, which was launched in September 2021.

Closing Remarks

Following the presentations, Ms. Eberley invited Director Gruenberg to make closing remarks. Director Gruenberg shared that he appreciated the participation of the members and that he valued the comments they shared. He expressed his view that the partnership with state regulators is important in helping to steer supervised institutions through this extraordinary time. Director Gruenberg also acknowledged and expressed thanks to Ray Grace, the former Bank Commissioner for North Carolina and member of the Committee, who retired in July.

Having no further business to discuss, the meeting was adjourned at 4:38 pm.

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

October 6, 2021

Minutes
of the
Meeting of the Advisory Committee of State Regulators
of the
Federal Deposit Insurance Corporation
Federal Deposit Insurance Corporation Building
Washington, D.C.
Open to Public Observation Via Webcast
October 6, 2021 – 1:00 PM

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

Jelena McWilliams
Chairman
Board of Directors
Federal Deposit Insurance Corporation