The Meeting of the Advisory Committee on Community Banking

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

November 19, 2013 8:45 a.m. – 3:36 p.m.

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

The members of the Committee present at the meeting were: Robert F. Baronner, Jr., President and Chief Executive Officer ("CEO"), Bank of Charles Town, Charles Town, West Virginia; Cynthia L. Blankenship, Vice Chairman and Chief Operating Officer, Bank of the West, Grapevine, Texas; Leonel Castillo, President and CEO, American Bank of Commerce, Provo, Utah; Carolyn "Betsy" Flynn, President and CEO, Community Financial Services Bank, Benton, Kentucky; Joseph G. Pierce, President and CEO, Farmers State Bank, Lagrange, Indiana; Jane Haskin, President and CEO, First Bethany Bank & Trust, Bethany, Oklahoma; Mark Hesser, President, Pinnacle Bank, Lincoln, Nebraska; James Lundy, Chief Executive Officer, Western Alliance Bank, Phoenix, Arizona; Kim D. Saunders, President, CEO and Director, Mechanics & Farmers Bank, Durham, North Carolina; Dorothy A. Savarese, President and CEO, Cape Cod Five Cents Savings Bank, Orleans, Massachusetts; David Seleski, President, CEO and Director, Stonegate Bank, Fort Lauderdale, Florida; Alan Thian, President and CEO, Royal Business Bank, Los Angeles, California; and Derek Williams, President and CEO, First Peoples Bank, Pine Mountain, Georgia.

Walter E. Grady, President and CEO, Seaway Bank and Trust Company, Chicago, Illinois was absent from the meeting.

Members of the FDIC Board of Directors present at the meeting were: Martin J. Gruenberg, Chairman and Thomas M. Hoenig, Vice Chairman.

Corporation staff who attended the meeting included: Willa M. Allen, Michael W. Briggs, Luke H. Brown, Richard A. Brown, Navid K. Choudhury, Carolyn Curran, Kevin N. Dauer, Christine M. Davis, Patricia B. Devoti, Doreen R. Eberley, Diane Ellis, Robert E. Feldman, George French, John M. Fultz, Shannon N. Greco, William H. Henley, Jr., Martin D.

Henning, Kathy Kalser, Yan Y. Lee, Alan W. Levy, Christopher Lucas, Jonathan N. Miller, Robert W. Mooney, Sumaya A. Muraywid, Christopher J. Newbury, Thomas E. Nixon, Richard Osterman, Elizabeth Ortiz, Sylvia H. Plunkett, Jack Reidhill, Marlene M. Roberts, Claude A. Rollin, Barbara A. Ryan, Donald R. Saxinger, Martha Solt, Marc Steckel, Thomas E. Stokes, Robert Storch, Cottrell L. Webster, Mindy West and Smith T. Williams.

William A. Rowe, III, Deputy to the Chief of Staff and Liaison to the FDIC, Office of the Comptroller of the Currency was also present at the meeting.

Chairman Gruenberg welcomed the Committee and provided an overview of the day's program which covered , in several cases, issues raised by the Committee in earlier meetings. The first panel would provide an update on the FDIC's Community Bank Initiative, including recent data and trends, he said. The second panel would follow up an earlier discussion concerning technology service providers and vendor management issues. Chairman Gruenberg said the third panel would address recent guidance on troubled debt restructuring ("TDR"), and the uniform classification and appraisal of securities. The fourth panel, he said, would demonstrate a cyber-security exercise the FDIC had developed to facilitate community bank discussions of emerging operational risk issues. Chairman Gruenberg said the fifth panel would present the "Money Smart for Small Business" curriculum that the FDIC had developed jointly with the Small Business Administration ("SBA"). The sixth session would address flood insurance issues and the seventh would focus on social media guidance that had been developed by the banking regulatory agencies that make up the Federal Financial Institutions Examination Council ("FFIEC"). Chairman Gruenberg then introduced FDIC Chief of Staff Barbara Ryan, who moderated the rest of the day's proceedings.

Ms. Ryan introduced Richard Brown, FDIC Chief Economist and Associate Director, Division of Insurance and Research ("DIR"), who led the "Update on Community Bank Initiatives" panel. Mr. Brown noted that the FDIC Community Bank Initiative continued with additional research in 2013, including research concerning community banks' role in new firms' access to credit that had been presented at a recent conference; he introduced Smith Williams, Acting Chief of the Special Studies Section, DIR, who spoke about the study. Ms. Williams said there is evidence that startup firms that have access to formal outside funding have a higher survival rate than those which do not. Research also indicated community banks gather and use non-quantifiable or "soft" information in making certain credit determinations. She said new data became available that tracked 5,000 startup firms from 2004 through 2011, and the FDIC used that data to explore the connection between the proximity of startup firms to a community bank and the startups' access to bank credit (while controlling for firm, local bank market and economic conditions).

Ms. Williams said the FDIC study confirmed that the closer a startup firm was to a community bank, the more likely the firm was to use bank financing. The type of lending the startups used, she said, tended to be personal loans to the firm owners that were used to fund the business, rather than commercial loans or lines of credit. Ms. Williams said firms that were further away from community banks were more likely to finance their operations using more expensive credit card debt, which does not rely on "soft" information. Specifically, Ms. Williams said that, generally, a new firm located a quarter mile further from a community bank

was about 1.3 percent less likely to use a bank loan for funding and was about 7 percent more likely to use a credit card. Thus, she said, the study concluded its findings were consistent with the theory that community banks generate and use "soft" information in making credit decisions concerning startup firms. Mr. Brown said this study and others indicated that community banks generate non-quantifiable information that makes credit "work" and that distance to a community bank is an important factor.

In response to a question from Member Blankenship, Ms. Williams said about 85 percent of the startup firms in the study were in metropolitan areas and that the study's results were not sustained in rural areas. Responding to a question from Member Saunders, Ms. Williams said it was not possible to know if the community banks used any scoring mechanisms in making their loan decisions because the study's data did not provide information about the actual loans the startup firms received. Responding to a question from Member Thian, Ms. Williams said the study's data did not include information about whether the loans made were SBA loans.

Member Haskin commended the study and said it was consistent with her experience that new businesses often fund their operations using personal assets. She cautioned that community banks' use of "soft" information, such as personal knowledge of the customer, rather than a defined credit score, could open the banks to fair lending practice questions which are expensive to respond to. Member Lundy said that his bank used a centralized, quantitative model for underwriting small business loans under $250,000 and was careful not to use judgmental information to overrule its quantitative model for fear of fair lending criticism. Member Pierce agreed that it is difficult for a community bank to justify why it had made an exception to a credit score based on personal knowledge of the borrower. Responding to a question from Vice Chairman Hoenig, Member Lundy confirmed that the type of loan his bank was shying away from was called a "character loan" in the past. Responding to a question from Chairman Gruenberg, Ms. Williams said the definition of "soft information" as generally non-quantifiable information had come from previous research and was not a focus of the present study.

In response to questions from Member Baronner about the survival rate of the 5,000 startup firms in the study and how many got loans from community banks, Ms. Williams said that the survival rate as of the end of 2011 was about 50 percent and that about 30 percent of the firms had bank loans, although the data did not indicate what types of banks originated the loans. In response to a question from Member Lundy, Mr. Brown confirmed that community banks have about a 14 percent share of the overall lending volume but make about 46 percent of small loans to farms and business, and that the present study was consistent with earlier research indicating a strong relationship between community banks and the small business loan market.

Mr. Brown then spoke about "Community Bank Developments in 2012" (while referring to a series of charts with the same title), noting that the 2012 data and analysis provided an additional year to the 27 years previously provided by the FDIC Community Banking Study. Mr. Brown began by providing some background statistics about community banking. He noted that the industry's structure had not changed much in 2012, that 92 percent of bank charters are community banks. Mr. Brown said there were 51 community bank failures in 2012 (down from 88 in 2011 and down from a peak of 144 in 2010), so there was a clear downward trend in failures as the effects of the financial crisis dissipated. He said the community bank failure rate

was .075 percent in 2012 compared to a zero percent failure rate for non-community banks. Mr. Brown commented that non-community banks had more intense problems earlier in the crisis and their problems also abated more quickly than those of community banks, which had greater concentrations in real estate assets that were taking longer to work out. Mr. Brown observed that real estate markets had stabilized and had been improving in recent months. Generally, he said, bank failures should contribute less to the pace of consolidation in the years ahead. Mr. Brown noted that 188 community bank charters were surrendered through voluntary transactions in 2012 (compared to 148 in 2011), but that was still less than half the rate of voluntary consolidations of non-community banks in 2012 and was also lower than the pre-crisis community bank closure rate. Mr. Brown said the FDIC was starting to see some interest in new charter applications and those may affect the future pace of consolidation.

Regarding assets, Mr. Brown said that net loans and leases held by community banks grew by1.6 percent in 2012, and that community banks grew more slowly than non-community banks during the year. He noted that community banks saw asset growth in agricultural loans, commercial and industrial loans, and consumer lending, but continued to shed commercial real estate loans. Regarding geographical distribution, Mr. Brown said that 2012 did not show much change, community banks continued to hold the majority of deposits in offices located in rural and micropolitan counties and that there continued to be 600 counties where the only banking office is the one operated by a community bank.

Mr. Brown turned to community bank performance in 2012, noting that pre-tax return on assets rose to 1.06 percent in 2012 (up from .74 percent in 2011) and the gap in such returns between community and non-community banks shrank to .42 percent (from 0.59 percent in 2011). He said the biggest factor for the increase in pre-tax return was a decline in community banks' loan loss reserves which were $6.5 billion in 2012 (down from $11 billion in 2011). He added that the loan loss reserves were nearing pre-crisis levels and may not provide much room for further improvement. Mr. Brown said that the low interest rate environment was affecting net interest margins ("NIM") and net interest income, which fell to 3.37 percent of assets in 2012 for community banks (compared to 3.43 percent in 2011). He observed that community banks continued to earn a higher NIM than non-community banks but that, since they earn about 78 percent of their operating income from NIM, their bottom line was significantly impacted by the lower NIMs. Mr. Brown observed that community banks' non-interest income improved in 2012, influenced by the increased mortgage activity that occurred because of the low interest rates, but noted that this performance would be hard to replicate in 2013 due to the rise in interest rates. Regarding non-interest expenses, he noted that they remained close to level, at 3.01 percent for community banks.

Mr. Brown said that the community bank efficiency ratio improved over 2012, noting that the efficiency gap between community and non-community banks shrank to 7.8 percentage points (about half the gap that existed as recently as 2010). He said that further improvements in community bank efficiency ratios would probably be dependent on a normalization in interest rates since the FDIC's research indicated that about 70 percent of the deterioration in the efficiency ratio since the late 1990's was due to the limits on NIM. Mr. Brown said that community banks generated $16.4 billion in net income in 2012 (up from $10.6 billion in 2011) and that income generated about $7.5 billion in capital from retained earnings; community banks

also raised about $3.4 billion of capital from external sources. He said that, historically, about 69 percent of community bank new capital came from retained earnings. Mr. Brown concluded that 2012 had been a reasonably good year for community banks and invited questions and comments from the Committee.

Member Castillo asked if the FDIC was aware of other revenue types, in addition to the traditional NIM, that had been successful for community banks. Mr. Brown noted that data for non-interest sources of income were limited, but noted that research did indicate that large and sudden strategy changes tended to underperform, and that incremental changes based on developed expertise worked better. Member Savarese cautioned that community banks should not be discouraged from exploring alternate sources of income and new business models, but agreed that large and sudden changes were characteristics to avoid. In response to a question from Member Seleski about whether the new capital for community banks tended to come from private or institutional investors, Mr. Brown indicated that the FDIC had limited offsite ability to identify sources of capital.

In response to a question from Member Williams about core earnings minus the effect of loan loss reserves, Mr. Brown said that the efficiency ratio measured every major element of return on assets except for loan loss provisions. He agreed that community banks were challenged to convert expenditures into revenue and that community banks' core earnings model was dependent on a normal interest rate environment which has not existed due to the fact that interest rates have been near zero since 2008. Member Williams also inquired whether tax loss carry-forwards were affecting profitability and suggested that there would be fewer of them as banks' period of profitability extended. Mr. Brown said the FDIC could explore this question further. Member Lundy inquired whether community banks of $100 million in asset size really experienced efficiency economies of scale. He suggested further research might be helpful because his own observation was that the banks needed to be larger than $100 million to achieve such economies. Mr. Brown noted that the economies of scale chart to which Member Lundy referred looked only at average costs and did not take earnings power into account.

Mr. Brown then spoke about consolidation; generally, he reported the FDIC's research did not support the observation that the community banking sector was facing its demise, or that community banks are too small to succeed. First, he noted that almost all of the reduction in the number of charters between 1984 and 2012 had occurred in charters of banks with under $100 million in assets while the number of charters in the next two larger categories ($100 million to $1 billion and $1 billion to $10 billion) had grown 17 and 19 percent, respectively. Turning to asset growth, Mr. Brown said that banks with assets over $10 billion had experienced an over 1,000 percent growth in assets between 1984 and 2012, but noted that most of that growth had occurred because they acquired mid-sized institutions. Mid-sized community banks' asset growth in the same period was 36 percent for banks between $100 million and $1 billion, and 18 percent for banks from $1 to $10 billion.

Mr. Brown said that there was a significant decline in the number of institutions with assets less than $25 million (from 6,000 in 1984 to 213 at the end of 2012) and there was not much consolidation in the mid-sized community bank categories. He said certain niche banks such as agricultural lenders could prosper even at a very small size, but that other specialties,

such as commercial real estate specialists, appeared to require a larger scale. Mr. Brown said there are still 2,000 banks with assets less than $100 million and 4,000 between $100 million and $1 billion; he said, from an expense standpoint, economies of scale do work against the smallest institutions. Focusing on the last decade, Mr. Brown noted that consolidation had occurred primarily *among* community banks and it had not been a case of the very largest banks buying small community banks. He said that after a decade of consolidation, 92 percent of the smallest institutions (under $100 million) still operated under a community bank charter at the end of 2012, and that 80 percent of those whose assets were from $100 million to $1 billion still operated under a community bank charter.

Member Williams agreed, saying that in Georgia many banks that had survived the financial crisis were now joining forces with stronger community banks. He said big banks could merely enter a market if they wanted to and did not need to merge with small banks. Member Seleski thought that big banks' political and regulatory issues limited them from doing smaller acquisitions and that they probably did not look at banks with less than $2 billion any longer. He said that there was pent up demand for consolidation in Florida, where his bank was a regular acquirer, but that consolidation was held up by pricing issues and potential purchasers' lack of financial wherewithal. Regarding pricing, Member Blankenship observed that banks were so flush with deposits currently, that potential sellers no longer received deposit goodwill premiums and this was suppressing the sales market. She suggested that that when interest rates increased, there would be more bank sales.

Member Lundy said that the underlying health of the community banking sector might not be as good as the FDIC data suggested. He said that, except for a few special situations, it was more difficult for a community bank to survive at $100 million of assets, especially if it was located in a metropolitan area. Member Lundy said there was a sense in the field that economy of scale issues were serious for small banks and that the subject deserved further study. Member Castillo said that his under-$100 million community bank compared well against other Utah banks under $500 million, but that it compared poorly against banks with assets over $500 million. He said he did not know what the future held for community banks under $100 million because even local capital might not be willing to stay with such a bank. Member Williams thought that the key was not whether such a bank could survive, but whether it could provide a sufficient return to keep investors. He said that concerns about new regulations and the cost of regulatory compliance could override the pride local board members traditionally had in maintaining a community bank. Member Blankenship observed that there were fewer younger generation community bankers to replace elders who left the business; she suggested that research look into demographic issues that affect succession in community banks. Mr. Brown said that the FDIC was looking into how that, as well as rural depopulation, affected the future of community banking.

Chairman Gruenberg said that there had been concern after the crisis whether community banking continued to be viable, but that the data supported finding that most of the consolidation had occurred in the smallest institutions while mid-sized community banks had grown in terms of charters and assets. He said that those between $100 million and $10 billion in assets continued to play a vital role in the banking systems and that those below $100 million were also

viable. Recognizing that there are continuing pressures on community banks, Chairman Gruenberg thought that the picture, on balance, was more positive than previously appreciated.

Ms. Ryan then introduced Doreen Eberley, Director, Division of Risk Management Supervision ("RMS") and Donald Saxinger, Senior Examination Specialist, RMS, who led the discussion of "Vendor Management Follow-up Issues." Ms. Eberley said that RMS had seriously considered the Committee's concerns, expressed at the previous meeting, about the oversight of technology service providers and had shared those concerns with the other FFIEC banking regulators. As a result, she said, the FDIC and other FFIEC agencies are making changes to their information technology ("IT") oversight and examination programs. Ms. Eberley said that the FFIEC agencies were developing a method to deliver technology service provider ("TSP") examination reports to TSP client banks *automatically,* rather than only upon request of TSP clients. In cases where an IT examination identifies areas of concern with a TSP, she said, the FDIC is also revamping its transmittal letter of notification to the TSP's client banks so they fully understand the FDIC's concerns and any steps that are expected of the client banks. Ms. Eberley said the FDIC is developing additional technical assistance videos on a range of vendor management issues and RMS would provide more details at a future meeting.

Mr. Saxinger discussed the topic of vendor management. He said there are three main sources of guidance: 1) FFIEC outsourcing guidance, issued in 2000 and later incorporated into the FFIEC IT Examination Handbook; 2) FDIC Guidance on Managing Third Party Risk; and, 3) the interagency guidelines for safeguarding customer information. Mr. Saxinger said the FDIC had also issued three informational brochures focused on community bank needs in engaging and managing technology providers: 1) Effective Practices for Selecting a Service Provider; 2) Tools to Manage Service Providers' Performance Risk, Service-Level Agreements; and 3) Techniques for Managing Multiple Service Providers. Mr. Saxinger said the FDIC guidance for managing third party risk defined third parties more broadly than the prior FFIEC guidance which was focused on outsourcing technology services. The FDIC third party guidance addresses all entities with which a bank has entered into a relationship, he said, and describes a requirement for banks to have a general framework for oversight of significant third parties. Mr. Saxinger said banks are responsible for identifying and controlling risks arising from third party relationships to the same extent as if the bank conducted the activity itself.

Mr. Saxinger then discussed the four key activities of a vendor risk management program: 1) risk assessment; 2) due diligence; 3) contracts; and 4) monitoring. The document, "Vendor Management Tips," to which he referred, more specifically discusses these issues. Risk assessment, he said, is the process of ensuring that the outsourced activity is consistent with the bank's overall business strategy. Due diligence includes the process of selecting and validating whether a service provider meets the bank's needs and includes various business decisions such as cost, service levels, reliability and regulatory compliance. Mr. Saxinger then discussed outsourcing contracts, their purposes and various contract concepts and terms that banks should consider. Finally, he discussed agency guidance concerning monitoring vendors, emphasizing that it is an ongoing activity to ensure that providers are financially secure as well as complying with the law and contract provisions.

Member Hesser said he appreciated the guidance written from the bank's perspective, but expressed concern that the guidance would become "best practices" and that banks would be examined against the details in the guidance. For example, he said that examiners do not currently examine every contract a bank has entered into with a provider and he was concerned that it might become a focus. Ms. Eberley noted that, although the guidance documents just discussed were not new, FDIC staff thought they would be helpful to review because they continued to be relevant. She said that guidance documents are not the basis for examinations; the FDIC examines against rules, a point which the FDIC emphasizes to its examination staff. Ms. Eberley said that the FDIC shares information about best practices as a form of technical assistance, not as a way to raise the examination bar.

In response to a question from Member Savarese about "cloud computing," Mr. Saxinger noted that the FFIEC had issued a letter on the topic in response to numerous requests but said, generally, cloud computing was merely a form of outsourcing to which the normal standards applied. Responding to another question from Member Savarese, Mr. Saxinger indicated that the FFIEC agencies had not discouraged cloud computing in any broad-based way, and that from a safety and soundness perspective, examiners would consider if a bank had appropriately assessed any risks associated with using a cloud-based approach. He added that the issue of cloud computing was a topic of ongoing discussion among the regulatory agencies. Member Savarese expressed the view that examiners in the field were reluctant to view cloud computing as acceptable and recommended that RMS consider possible inconsistencies between headquarters and the field. She said that community banks would likely transfer many functions to the cloud and that, if there is an examination staff predisposition against it, it would create a problem.

Member Lundy suggested that community banks would benefit from practical guidance on determining which of its relationships, contracts and terms were "material," thus requiring heightened bank attention. He observed that his bank had over 2,000 vendors, including providers of janitorial services in smaller town branches, and it would be helpful to know if the bank was expected to have robust monitoring systems for 20 critical vendors, or 150 of them. Ms. Eberley said the technical assistance videos under development were designed to address such questions at an operational level; she said that RMS would be sure to discuss materiality in an upcoming video. Ms. Eberley invited other Committee members to share similar suggestions with her at any time so that the technical assistance videos would be as helpful as possible.

In response to an inquiry from Chairman Gruenberg, Ms. Eberley discussed the subject of sharing TSP examination reports with banks that are not clients of the TSP. She said that sharing TSP examination reports with non-clients would violate FDIC confidentiality rules, but that a great deal of useful information was available from other sources and these alternate sources would be discussed in a technical assistance video. Member Baronner asked if anything could be done to increase the leverage of the FDIC over the largest service providers, beyond distributing examination reports to the providers' client banks and suggesting that the client banks put pressure on the providers. Ms. Eberley said that the FDIC has the ability to effect necessary corrective action through the examination process, similar to its power regarding banks. She said the FDIC is also committed to working on the communication aspects of its examination program.

The Committee stood in recess at 10:21 a.m. and reconvened at 10:39 p.m. that same day.

George French, Deputy Director, RMS, moderated the third panel, "Troubled Debt Restructuring Guidance and Uniform Agreement on Classification and Appraisal of Securities." Mr. French said both topics dealt with the evaluation of credit quality and, thus, were fundamental to what bankers and examiners do. Both topics also are subjects of technical assistance videos that are currently in preparation for release by the end of 2013, he added. He then introduced Robert Storch, Chief Accountant, RMS, who spoke about TDRs.

Mr. Storch said that interagency supervisory guidance had recently been issued with a goal of clarifying the agencies' position on TDRs involving real estate loans, a topic about which there had been many questions. He said the supervisory guidance was not meant to provide a comprehensive review of the accounting rules that apply to TDRs but, rather, presented more of a supervisory focus on the topic. He said the guidance reiterated the agencies' encouragement of bankers to work with borrowers. Mr. Storch said the guidance clarified that, when loans are modified and determined to be TDRs for accounting purposes, the TDR label does not mean the loan is automatically required to be placed in nonaccrual status or adversely classified for its remaining life. Mr. Storch reviewed various topics addressed in the guidance, including the accrual treatment for TDRs and credit risk classification of TDRs. He said that a key area of the guidance was on defining collateral dependency and distinguishing between loans that are (and are not) collateral dependent; he also explained the importance of those distinctions. Mr. Storch said the guidance addressed when loss classifications and charge-offs should be taken on impaired loans, including TDRs. He also described the content of the TDR technical assistance videos and noted they would include examples of modified loans to illustrate the TDR accounting and regulatory topics being addressed.

Members Lundy and Blankenship complimented the FDIC on its efforts to provide technical assistance on the complicated TDR subject. Member Blankenship also observed that banks had interpreted earlier guidance on TDRs in different ways and the different interpretations had become apparent when peer group reports were published about the banks. He said the clarification that a TDR designation does not mean lifetime nonaccrual treatment was important. Mr. Storch agreed that was a key message the agencies meant to communicate. Member Baronner observed that some reporters of peer financial information published ratios involving TDRs that could be misleading. Mr. Storch said that he had heard that complaint and discussed how the Call Report made a clear distinction between past due and nonaccrual TDRs and those in compliance with their modified terms. He also noted that the Call Report data on TDRs show, on a collective basis, whether bankers are working with their borrowers on TDRs and when problem loan situations are showing improvement.

Member Castillo said there was a significant difference of opinion on the meaning of the term "well-documented analysis" as it was used in TDR guidance and asked for clarification. Mr. Storch said that he was not aware of a specific standard for the term. He said the extent of documentation required would likely depend on the facts and circumstances; for example, a decision to move a loan from nonaccrual to accrual status, or to more favorably risk rate a particular loan, would need greater documentation and that banks could return to a more customary level of documentation after an extended period of performance. Mr. French

observed that the agencies tried not to be overly prescriptive in their definitions in order to allow bankers to exercise judgment and flexibility in the process. Member Castillo said the vagueness could create a Catch-22 situation for bankers and that there can be differences of opinion between bankers and examiners about what is "well-documented." He said that he preferred clarity of definitions, not only to comply with regulations, but also to engage in prudent banking. In response to a question from Member Saunders, Mr. Storch clarified that, in making a classification determination, a banker should look at the loan as modified by its new contractual terms.

Member Williams and Mr. Storch discussed the definition of collateral dependency of a loan and the impacts of determining a loan to be collateral dependent or not. They also discussed several types of loans that appeared to have similar characteristics, but would be categorized differently. Mr. Storch discussed the origin of the distinction and agreed that there were gray areas in categorization and differences of opinion. He recommended that a bank establish a clear policy -- on where the line was between the operation of a business and the operation of collateral -- and then apply that policy consistently and reasonably. Member Lundy complimented the FDIC and its examiners for being flexible in looking at alternate sources of support for a loan and allowing a bank to take a loan off nonaccrual if the bank can sufficiently document the alternate sources of support.

Kyle Hadley, Chief, Examination Support Section, RMS, presented the Committee with an overview of the 2013 *Uniform Agreement on the Classification and Appraisal of Investment Securities Held by Depository Institutions*. He explained that the agencies updated their 2004 guidance by removing references to credit ratings and harmonizing the guidance with the permissible investment rules the FDIC and Office of the Comptroller of the Currency ("OCC") had issued earlier in the year. Mr. Hadley said the intention was to remove the references to credit ratings from the guidance, consistent with the Dodd-Frank Act; the longstanding definitions of "Substandard," "Doubtful" and "Loss" did not change. He said examiners and banks could still use bond ratings as a scoping tool and as a reasonableness check. Mr. Hadley said the guidance reiterated the longstanding principle that banks have to understand what they own, which requires more analysis than just reviewing credit ratings. He said examiners may be looking at banks' investment files more than in the past, but there was no intent for the 2013 *Uniform Agreement* to increase banks' documentation requirements.

Member Castillo inquired about what was considered an adequate evaluation for the purchase of a security. Mr. Hadley said an adequate evaluation would vary depending on the security. For a bond issued by a local or familiar municipality, management should obtain the most current financial information available for analysis purposes; for an out-of-territory bond, management should have good financial information as well as demonstrate knowledge of the community and its unique risks. Member Castillo asked if the FDIC expected community banks to outsource the analysis function to third parties; he observed that performing the analysis could be beyond the capability of many banks. Mr. Hadley said he expected vendors would offer such services and noted there is an increasing volume of publicly available information about municipal securities that banks can use. He said the agencies were encouraging banks to understand their investments better. Mr. French said agency expectations were proportionate to a bank's concentration; if a bank has a great amount of municipal securities relative to capital, or

it has a greater risk profile, then examiners would have higher expectations. He also said the FDIC technical assistance video that would soon be issued will provide good resources. Member Williams commented that securities brokers gather and provide public information about securities that banks can use to analyze and provide documentation. Mr. Hadley said that banks may use the publicly available information from brokers as long as they independently analyze the information.

Member Pierce asked about the impact on community banks of the Financial Accounting Standards Board ("FASB") proposal regarding credit losses on financial instruments (referred to by the FASB as the "current expected credit loss" model); he said community banks may need to engage third party vendors in order to comply with the proposed change. Mr. Storch said the banking regulatory agencies had been asking the FASB to move to an expected loss model (from the incurred loss model) for over ten years. He said that the agencies had communicated to the FASB (through periodic meetings and their joint public comment letter on the FASB proposal) that any new standard on credit losses would have to be geared to enable community banks, which have fewer resources than larger banks, to apply the standard. Mr. Storch said that the FASB had made it clear that, in any new standard, a variety of application methods would be allowed. Nonetheless, he said that agency staff and community banks would need significant education efforts to understand and comply with any new standard on credit losses.

Member Pierce said that it was very gratifying to see that the banking regulators understood the differences between community and non-community banks; he indicated that this understanding had begun with this Committee and had expanded from it. Member Williams said that the FASB had never understood the community banking business model well and that guidance from the banking regulatory agencies would be helpful. Member Williams also indicated banks were being hit with multiple regulatory and accounting changes at once. Mr. Storch agreed and said that, with several proposed accounting changes reaching finalization at the same time, it would be important for the FASB to provide for a reasonable transition period.

The day's fourth panel, "Bank Cyber Security Exercise Demonstration," was moderated by Ms. Eberley and Marlene Roberts, Senior Specialist, Critical Infrastructure Protection, RMS. Ms. Roberts observed that cyber risk is just one component of a bank's operational risk. She said that a cyber-attack, a software problem, a problem with items processing, or a natural disaster could each have a major impact on a bank's operations and threaten its entire business. Ms. Roberts noted that the financial services sector is critically dependent on IT for all of its basic operations and the days were past when the sector could revert to manual processing. She said that banks needed to be prepared to address any type of operational risk with a coordinated, full-business approach. Ms. Roberts said that some industry-wide exercises had targeted larger banks and the FDIC's aim, with its "Cyber Challenge" prototype, was to help community banks by facilitating discussions of several operational risk issues.

Ms. Roberts said the Cyber Challenge provided community banks with a DVD that introduced four different factual scenarios in short vignettes. Each vignette is accompanied by a set of flash cards that provide a set of questions to stimulate discussion, as well as a listing of reference materials, she said. Bank personnel should watch a vignette then engage in a facilitated discussion, or in informal, free-flowing group discussions of the issues raised. Ms.

Roberts said the discussion of each scenario could last from one to two hours. The four scenario subjects are: 1) Item Processing Failure; 2) Corporate Account Takeover; 3) Bank Internal Error/Phishing and Malware Problems; and 4) Technology Service Provider Problems. Ms. Roberts said that the second and third scenarios were chosen because they were very common, impacting institutions on a daily basis. The other two scenarios have a low probability of occurrence, but would have a great impact on the affected institution.

The Committee then viewed the third vignette. Ms. Roberts said after watching such a vignette, bank personnel could discuss whether their bank was prepared to respond to such a problem. In the spear-phishing attack, for example, Ms. Roberts said the flash cards asked "what technical measures should be taken to prevent further contamination, to preserve evidence, to detect fraudulent transactions, and to assess damage," and "does your bank's incident response plan address these measures?" She said if bank personnel become stumped by a topic, the Cyber Challenge package also included flash cards with references to regulatory guidance and references to external sources of information. Ms. Roberts said the Cyber Challenge was not meant to be a full-scale exercise or a regulatory requirement. Rather, she said, it was meant to encourage discussions within community banks that may raise their levels of preparedness. She also encouraged banks to discuss issues or questions with examiners and with FDIC Regional Office personnel. Ms. Roberts said that RMS welcomed the Committee members to use the Cyber Challenge package and to provide feedback; she said the aim was to review and revise it, and then share it more broadly by the end of 2013.

Members Pierce and Savarese complimented the project. Member Savarese said her bank's staff had done tabletop exercises on a variety of similar situations and found them helpful. She said the Cyber Challenge presentation was outstanding because it was not overwhelming, was open-ended and could be tailored to each institution. Member Baronner said his bank had actually faced one of the scenarios – an inability to post transactions through one of its core processors- for 14 days. Member Haskin said that banks should consider their insurance coverage risk relating to cyber-attacks; she said, for example, if a bank does not use callback procedures in relation to wire transfers, they may lose insurance coverage for some transactions. Ms. Roberts agreed that insurance was a particularly tricky issue and could be a concept included in the Cyber Challenge package. Member Savarese said that a bank insurance organization of which she is a board member thought that cybersecurity was such an important issue that it had written about it in several of its newsletters to banks. She recommended that community banks view the insurance questions as learning opportunities and engage in dialogues on the subject with knowledgeable sources.

The Committee stood in recess at 11:37 a.m. and reconvened at 1:33 p.m. that same day.

Ms. Ryan introduced Elizabeth Ortiz, Deputy Director of Consumer and Community Affairs, Division of Depositor and Consumer Protection ("DCP"), and Thomas Stokes, Community Affairs Officer, DCP, who moderated the panel, "Money Smart for Small Businesses." Ms. Ortiz said that Money Smart for Small Businesses is a financial education resource that the FDIC developed jointly with the SBA to assist existing and emerging small businesses with resources they need to grow. She observed that a healthy small business sector is vital for the economy and that community banks have a key role in providing small businesses access to credit.

Ms. Ortiz said that startup and existing small businesses face a variety of challenges before they become bankable. She said that many persons who participate in the FDIC's Money Smart program for individuals are already entrepreneurs or are considering starting small businesses and need additional help tailored to their business goals. Money Smart for Small Businesses provides a comprehensive, introductory curriculum on managing a small business, Ms. Ortiz said, and the target audience includes persons who had not had prior formal training, counseling or coaching. She said the training is intended to be practical, on a wide range of everyday topics, and giving guidance on how to improve basic business operations (the module topics include: types of organizations; financial management; insurance needs; tax planning and reporting). Ms. Ortiz said the curriculum is designed to be led by instructors with a firm understanding of small business needs. Those instructors come from organizations that are members of the Money Smart for Small Businesses training alliance which, she said, includes financial institutions, chambers of commerce, and SBA resource partners such as business development centers, women's business centers and micro lenders. Ms. Ortiz said the FDIC had worked closely with the SBA in developing the curriculum and relied on many SBA connections in the program's outreach efforts. She noted that the FDIC had fulfilled almost 18,000 requests for copies of the training, many of which have likely been reused and distributed afterward.

Ms. Ortiz noted that the Money Smart for Small Businesses program acts as a gateway for small business persons, that it introduces participants to substantial amounts of information of immediate and practical interest, but those participants would need further support implementing what they learned in the program. Ms. Ortiz said the Money Smart program had the potential to connect small businesses with organizations and resources that can provide this needed further support and to connect them with banks which may consider them to be on the path to becoming bankable. She said that community banks can use the program as a resource by partnering with community organizations to deliver the training.

Mr. Stokes spoke about how a variety of organizations, including community banks, participated in providing training for small businesses using the FDIC Money Smart for Small Businesses program as part of their toolkits. He said that community banks could, for example, provide quarterly workshops with existing small business customers to strengthen those relationships and to establish new ones. Mr. Stokes said the FDIC worked with the technical assistance provider networks developed by the SBA. He described how an upstate New York community bank partnered with a nearby university's outreach program to provide classes and establish a niche for itself among small businesses. Mr. Stokes provided other examples and opportunities involving local chambers of commerce, affordable housing developers, and city development offices. Ms. Ortiz and Mr. Stokes invited feedback from the Committee.

Member Blankenship observed that the program was currently structured as a "train the trainer" system and delivered by an instructor. She said the FDIC had developed an impressive inventory of training modules and asked if consideration had been given to posting them online, without instructors. Ms. Ortiz noted that other parts of the Money Smart curriculum, such as Money Smart for Adults, had online components that allowed for self-paced computer-based instruction; she said the FDIC would certainly consider moving some parts of the Small Business curriculum to a self-education mode. Member Lundy suggested that community colleges and

their associations could make good partners for the small businesses curriculum because many people who attend community colleges are potential entrepreneurs.

Member Savarese said that her bank was currently partnering with a certified development company to provide small business training. She said that it allowed her bank to do something positive for the small business community, made the bank a lender of first choice to participants, and helped the bank develop useful collaborative business relationships with its partners. Member Savarese observed that establishing a curriculum was onerous work and the FDIC program allows local lenders to become further engaged with its small business community and provide meaningful assistance to them. She agreed that a self-paced module would be a useful addition to instructor-led learning. Mr. Stokes said that, in his experience with individual financial education, computer-based, self-paced instruction was particularly useful for reinforcement of learning after a person had been part of an instructor-led class. In response to a question from Member Williams about the timing of presenting learning modules, Mr. Stokes said the program was flexible, and that some organizations presented training sessions on a bi-weekly basis, while others presented the entire training over the course of successive days. In response to a question from Member Blankenship, Mr. Stokes said that an average module length was about one hour, but that it could vary depending on the subject's complexity and the detail of the discussions.

Ms. Ryan introduced the sixth panel, "Flood Insurance Guidance," and its panel, Luke Brown, Associate Director, DCP, John Jackwood, Senior Policy Analyst, DCP, Michael W. Briggs, Senior Counsel for Consumer Compliance, Legal Division, and Navid K. Choudhury, Senior Attorney, Legal Division. Ms. Ryan said the panel would discuss two issues: some broader issues concerning flood insurance raised by the Biggert-Waters Flood Insurance Reform Act of 2012; and a recent interagency proposed rule that would implement certain provisions of the Biggert-Waters Act.

Mr. Brown said that some provisions of the Biggert-Waters Act modified the National Flood Insurance Program ("NFIP") that are primarily under the authority of the Federal Emergency Management Agency ("FEMA") and outside the jurisdiction of the FDIC or other banking regulatory agencies. He said the flood insurance program had been intended to be funded by policyholder insurance premiums but, historically, those premiums had not met the program's cost. Mr. Brown said the Biggert-Waters Act was passed at a time when the federal flood insurance fund was indebted tens of billions of dollars after paying out following previous hurricanes. Factors contributing to the funding shortfall included, he said: many property owners paid low, subsidized rates that did not reasonably reflect the potential risks of floods; some property owners were allowed to pay grandfathered rates rather than the full actuarial rate; and, property owners were allowed to rebuild in high risk areas after they had flood damage.

Mr. Brown said the Biggert-Waters Act made several significant changes to the national flood insurance program. First, he said, it eliminated subsidized premiums for new policies and phased them out for others; thus, policyholders may see immediate or incremental increases in their premiums depending on their property's circumstances. Second, Mr. Brown said, the Biggert-Waters Act required FEMA to establish a reserve fund to meet expected future obligations; thus, policyholders would be charged additional premiums to establish this fund.

Third, he said, the Act required FEMA to update flood maps to reflect current flood risks, which would result in some increased rates, and more homes being designated as being in flood zones. The public concern about the financial impact of the combination of changes, Mr. Brown said, prompted proposed legislation to delay the changes, to require FEMA to conduct an affordability study, and then address some of the affordability issues.

Mr. Jackwood then discussed the joint agency proposed rules that would implement some of the Biggert-Waters Act changes to the mandatory purchase of flood insurance regulations; he noted that the proposed rules closely tracked the language of the Biggert-Waters Act. The first of three key provisions, he said, was to require lending institutions to accept private flood insurance to satisfy the law's mandatory purchase requirement. The second key provision, Mr. Jackwood said, was to require regulated lenders to escrow premiums and fees for flood insurance for certain loans. He noted that there was an exemption from the escrow requirement for smaller institutions and for certain types of loans (business, agricultural, second lien, and those for condominium associations). The proposed rule's third key provision affected forced-placed flood insurance and an institution's ability to charge a borrower for such a policy. Mr. Jackwood said the Biggert-Waters Act and the proposed rule would allow a lender to charge a borrower for forced-placed insurance commencing on the date of the lapse of a borrower's policy, but would require the lender to terminate the policy when the borrower shows evidence of sufficient coverage, and to refund to the borrower (within 30 days) premiums for any periods when there was overlapping coverage. Mr. Jackwood and Mr. Brown said that the proposed rules were open to public comment until December 10, 2013, and that they welcomed Committee comments (which would be made part of the public comments). Mr. Brown noted that the FDIC would soon release a video on flood insurance issues as part of its community banking initiative.

Member Hesser asked for clarification for the proposed rule's period of reimbursement for overlapping premiums; he observed that a bank informs a borrower when it force places flood insurance, but that borrowers often do not inform the bank when they buy sufficient (and overlapping) insurance. Mr. Jackwood said the Act required reimbursement for the period of overlapping policies, but indicated that it was not specific concerning the effects of a borrower not communicating their purchase to the bank. Mr. Jackwood also clarified that the "30-day" requirement defined the time period in which the bank's refund had to occur, but did not define the period for which a reimbursement for overlapping insurance had to be made.

In response to a question from Member Baronner, Mr. Jackwood said the proposed rule implementing the Biggert-Waters Act did not provide for any limitations on how much premiums could increase each year as part of the transition to private flood insurance and that a house sale would trigger a conversion to the private rate immediately. Member Baronner expressed the view that flood insurance premiums in certain areas, such as coastal North Carolina, would increase quickly; he had heard that a one million dollar house could have a $30,000 annual premium. He said such increases would negatively affect the marketability of those homes. Member Williams said that he had heard that large premium increases would occur for much less expensive properties; for example, an increase from under $1,000 annual premium to over $20,000 for a $150,000 property in Louisiana which had no history of flooding. Mr. Brown said that he had heard of similar increases; he said that for a second home, prices would go up 25 percent until it reaches a risk rate. Members Pierce and Savarese said they were also

looking at significant premium increases. Mr. Choudhury said that proposed legislation would require FEMA to conduct an affordability study which would be due within two years after the enactment of the proposed legislation and then FEMA would have two years after that to implement the premium increases according to the proposed legislation.

Member Haskin asked about the definition of private flood insurance and questioned whether bankers were qualified to determine if an offered policy met the definition. Mr. Jackwood said the proposed rule provided that, if a state insurance regulator determined that a policy meets the private insurance definition, there would be a safe harbor for the lender to rely on that determination. He noted that the FEMA former flood insurance guidelines provided six criteria for acceptance of a private flood insurance policy in lieu of an NFIP policy and that Congress had essentially placed those six criteria into the Biggert-Waters Act's definition of private insurance. Member Haskin commented that it would make more sense to put the burden on the insurance industry to offer only compliant policies than to have bankers make the judgment about compliance. Mr. Briggs noted that insurance is primarily a state regulated business in which insurers submit policies to the state regulator to obtain approval to sell the policy in the state; he said the proposed rule's state insurance regulator safe harbor was an attempt to build upon the widely-known process and add clarity to the issue.

Member Savarese expressed the opinion that the economic dislocation caused by the Biggert-Waters Act may cause safety and soundness issues in coastal communities; she later noted, for example, that one-third of the homes on Cape Cod were seasonal. Member Savarese noted that flood maps were subject to revision until June 2014 and that banks had to escrow beginning in July 2014; she observed it would be difficult to escrow appropriately if banks do not have the final flood maps amid other uncertainties. Mr. Choudhury noted that escrows are determined as of the date of the insurance policy and that, if the flood map changed in the future, the escrow amount could be updated upon the next renewal. Mr. Briggs said the FDIC would make sure that FEMA was aware of the interaction of the flood map revisions and banks' need to comply with the new escrow requirements. Member Baronner observed that if a bank force places expensive flood insurance and adds that cost to a loan's balance, the loan could quickly go into negative amortization. He said that this situation could create safety and soundness issues.

Member Williams said that it was not realistic to think that long term problems with the flood insurance program could be addressed overnight. Member Flynn said that borrowers can prove that their properties are not properly within a flood zone (although placed in a flood zone by a FEMA map), but that it was the borrower's expense to develop that proof. Member Savarese added that the engineers who develop the necessary proof are so backed up in their work that borrowers are not able to challenge the flood map effectively. Member Flynn said that FEMA maps were over-inclusive compared to the actual experience of the geographic area. In response to a question from Member Lundy, Mr. Jackwood clarified that the proposed escrow rules do not apply to business, commercial or agricultural loans. Member Lundy observed that other industries (such as home-building, title-insurance, real estate sales) would be impacted by the Biggert-Waters Act changes and expressed the opinion that they should also be involved in the legislative and rulemaking processes. Mr. Brown described the joint agencies' outreach efforts. Mr. Briggs noted that all of the agencies issued press releases about the proposed rule and observed that it was common for the various stakeholders, including those Member Lundy

mentioned, to provide their comments near the end of the public comment period. Member Lundy suggested that it would be helpful for state insurance regulators to weigh in on the Act and proposed rule. Mr. Brown and Mr. Briggs said that they expected state insurance regulators would be quite focused on the issues due to the proposed regulation's safe harbor proposal.

Mr. Jackwood confirmed that the reimbursement provision for overlapping policies applied to commercial loans. Member Lundy said commercial reimbursements could involve large amounts of money and expressed concern that reimbursements would also lead to compliance examination criticism. Member Flynn observed that insurance companies had become unreliable in providing banks with notice of policy lapses. Member Baronner expressed concern about the effect of inflated flood insurance premiums on whether a mortgage loan would meet the standards to be considered a "qualified mortgage" under the recently amended Regulation Z, which implements the Truth in Lending Act. Member Blankenship indicated that flood insurance changes could affect the real estate market because premiums would no longer be affordable.

The final panel of the day, "Social Media Guidance," was moderated by Jonathan Miller, Deputy Director, DCP, Elizabeth Khalil, Acting Special Assistant to the Deputy Director, DCP, and Richard Schwartz, Counsel, Legal Division. Mr. Miller said the banking regulatory agencies expected soon to release guidance concerning social media and consumer compliance risk management. He said the guidance was developed at the request of banks, especially those with limited resources to devote to compliance, that were looking for the "rules of the road" to participate in social media. Mr. Miller said he thought that social media provided community banks with a way to reach new customers, to engage younger people into the banking system, and to develop new business opportunities. He said the goal of the guidance was to make clear how to use social media consistent with the existing consumer protection laws.

Ms. Khalil said the proposed guidance, which had been published for public comment in January 2013, was meant to be helpful, practical and responsive to the needs of supervised institutions. She said the guidance collected laws and regulations that may be relevant to a bank's social media activities; the guidance also addressed broader concepts beyond specific laws and regulations, such as third party risk management and reputation risk. Ms. Khalil said the overall message of the guidance was that the existing consumer protection laws continue to apply to activities conducted via social media channels, just as they would if conducted through other channels. Second, she said, the guidance does not create any new obligations; it is meant as a guide to the existing requirements. Ms. Khalil provided examples of how current regulations, such as Regulation Z, would apply to bank advertising on a social media platform.

More broadly, Ms. Khalil said that banks should view social media use as part of their overall compliance risk management approaches. She said there was not a one-size-fits-all compliance program for all banks, especially smaller ones, and that compliance could and should be tailored to each financial institution. Ms. Khalil provided more detail on how a bank might tailor its compliance risk management. First, she said, a bank should identify the particular risks associated with its social media activities by answering a variety of questions, such as: how interactive the platform is; who is allowed to post content to it; how much oversight is given to the posted content; whether a third party operates the platform; whether the third parties have

access to customer information; and how the bank intends to use the platform (for example, to advertise itself or to address consumer inquiries and complaints). Ms. Khalil said that such factors would affect the type and amount of a bank's risk from its use of social media and, thus, what was necessary to comply with the existing law. She emphasized that the guidance was not intended to dictate any particular approach, and that, for example, there was no obligation to develop a stand-alone social media policy or designate a social media officer.

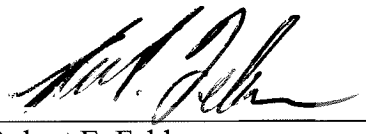
Member Pierce asked about the interaction of a bank employee's personal use of social media, in which he or she might speak favorably about the bank and its products, and the bank's obligations for what the employee said. Ms. Khalil said that the question was an important and delicate one and would be addressed in the final guidance but that she could not currently say exactly what that outcome would be. She said that a bank would want to consider for itself what it meant to "speak for the bank," who had the authority to do it, and how such persons were overseen. In response to Member Pierce's observation that a bank cannot realistically monitor its employees' social media conduct, Mr. Schwartz agreed, but noted that a bank should have a policy and procedure in place for official bank communications and should notify and train its employees about them. Members Blankenship and Pierce asked about differentiating between an employee's conversation on a street, an email by an employee, and an employee's social media use. Mr. Schwartz acknowledged that the matter was complex and said that employees' conduct could be viewed on a continuum; he said that the guidance treated an email or instant message not sent through social media channels as being outside the definition of social media and thus not covered by the guidance, while social media conversations of bank employees that involve official bank business should be addressed by a bank's policy. Member Savarese inquired how various disclosure requirements could be met when using a social media platform that limited how many characters could be used, such as Twitter. Ms. Khalil said that the disclosures issue had been a large and evolving subject in drafting the guidance. She noted that new social media platforms had been launched while the guidance was being drafted so that it was important that the guidance be general enough to apply to changing technologies. Mr. Schwartz said the intent regarding Twitter, for example, was to recognize that a disclosure might have to occur outside the body of the tweet.

Member Williams observed that many bankers he spoke with did not plan to use social media for business development purposes because of the risk of regulatory criticism. Ms. Khalil said that the agencies had heard similar views and hoped the guidance would increase banks' comfort about compliance so that they could use social media as a tool. Mr. Miller underscored that the agencies' hope that the guidance would encourage banks to use social media to attract business and to engage younger people into the traditional banking system. Member Pierce reported that his bank had used its Facebook page to warn persons about a financial scam that was occurring and had received substantial positive feedback from it. Member Savarese said that she was pleased that the agencies were seen as facilitating social media use because, if the agencies were not seen as supportive, it would hinder the regulated banking industry's competition with the unregulated banking industry. She noted that the Consumer Financial Protection Bureau encouraged the use of social media to secure a pipeline for customer complaints; for example, a customer could report that an ATM was not working and the bank could respond quickly.

Chairman Gruenberg inquired how central social media was expected to be to the future of community banks. Member Pierce said that, after the response his bank had received to the Facebook scam warning he had just described, he had come to think social media would be more important than he had previously thought. Member Lundy said that customers were subject to hacking attack attempts on a daily basis and thought social media was a good way to warn customers. Member Savarese said that social media would be more important in the future as a way to communicate with unbanked and under-banked people, as well as the younger generation. She indicated that social media could be used in a way that makes banks less intimidating and more accessible to these groups. Member Hesser indicated that younger generations were less responsive to older forms of communication, such as mailed letters and telephone calls, so that social media could be necessary to communicate with them. Member Blankenship said that she thought that social media could be a good community outreach tool that could be used beneficially by the banking industry.

Chairman Gruenberg thanked the Committee members for their participation. He invited them to provide, at their convenience, recommendations for future discussion topics.

There being no further business, the meeting was adjourned at 3:26 p.m.



Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
And Committee Management Officer
FDIC Advisory Committee on Community Banking

Minutes
of the
Meeting of the FDIC Advisory Committee on Community Banking
of the
Federal Deposit Insurance Corporation
Held in the Board Room
Federal Deposit Insurance Corporation Building
Washington, D. C.
Open to Public Observation

November 19, 2013 – 8:45 A.M..

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

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