

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

March 28, 2017 – 9:00 A.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: Tiffany Baer Paine, President and Chief Executive Officer (“CEO”), Security Bank USA, Bemidji, Minnesota; Richard T. Beard, President and CEO, People’s Utah Bancorp, American Fork, Utah; Adriana M. Boeka, President and CEO, Americas United Bank, Glendale, California; Roger Busse, President and CEO, Pacific Continental Bank, Eugene, Oregon; Asif Dakri, Vice Chairman and CEO, Wallis State Bank, Houston, Texas; David J. Hanrahan Sr., President and CEO, Capital Bank of New Jersey, Vineland, New Jersey; Jack A. Hartings, President and CEO, The Peoples Bank Co., Coldwater, Ohio; Chandler Howard, President and CEO, Liberty Bank, Middletown, Connecticut; Danny J. Kelly, President and CEO, Hometown Bank of Alabama, Oneonta, Alabama; Arvind A. Menon, President and CEO, Meadows Bank, Las Vegas, Nevada; Mary Ann Scully, President and CEO, Howard Bank, Ellicott City, Maryland; and John M. Tolomer, President and CEO, The Westchester Bank, White Plains, New York.

Christopher Emmons, President and CEO, Gorham Savings Bank, Gorham, Maine; Gwen M. Thompson, President and CEO, Clover Community Bank, Clover, South Carolina; and Joseph W. Turner, President and CEO, Great Southern Bank, Springfield, Missouri were absent from the meeting.

Corporation staff who attended the meeting included: Ruth R. Amberg, Steven O. App, Richard A. Brown, Kymberly A. Copa, Christine Davis, Alan Deaton, Patricia B. Devoti, Doreen R. Eberley, Diane Ellis, George E. French, Lisa A. Garcia, Samatha B. Gibson, Janet R. Gordon, Shannon N. Greco, Nathan Hinton, Nicholas Kazmerski, Matthew I. Kepniss, Christopher Lucas, Roberta K. McInerney, Jonathan N. Miller, Rae-Ann Miller, Emmanuel Monteau, Elizabeth Ortiz, Mark E. Pearce, Harrel M. Pettway, Sylvia H. Plunkett, Lee Price, Luke W. Reynolds,

Claude A. Rollin, Barbara A. Ryan, Kayce M. Seifert, Derek Thieme, Benjamin Vaughn, Angela N. Woodhead, and Angela A. Wu.

Chairman Gruenberg began by welcoming everyone to the meeting. The Chairman then provided a brief overview of the agenda. First, he explained that there would be a brief update on the FDIC's Community Banking Initiative, including the *de novo* outreach events conducted around the country, as well as recent changes to the pre-exam planning process. The Chairman indicated that, as part of the presentation, the Division of Insurance and Research ("DIR") would provide a preview of a paper they have been working on based on the 2016 Summary of Deposits survey. The Chairman stated that DIR's paper analyzes recent deposit data and concludes that banks as a whole attracted more deposits last year while operating fewer offices in the aggregate, although the number of community bank offices around the country actually increased last year. The Chairman indicated the next presentation would address the recently issued Handbook for Organizers of *De Novo* Institutions. The Chairman explained that the Handbook is designed to ensure that a new institution is positioned to succeed and addresses topics such as developing a sound business plan, raising financial resources, and recruiting competent leadership. Next, the Chairman stated that there would be a presentation on the Economic Growth and Regulatory Paperwork Reduction Act ("EGRPRA") report that the three Federal banking agencies presented to Congress the week of March 20, 2017, including an overview of the report's key recommendations. Following that, there would be a discussion of recent credit risk trends and supervisory expectations outlined in a recent article in the FDIC Supervisory Insights Journal. The Chairman explained that the article focuses on three loan categories: commercial real estate, agriculture, and oil and gas-related lending.

Finally, the Chairman stated that there would be a session covering the FDIC Youth Savings Pilot Program and Symposium. The Chairman then introduced Barbara Ryan to moderate the meeting.

Barbara Ryan introduced members of the first panel—Doreen Eberley, Director, Division of Risk Management Supervision ("RMS"), and Mark Pearce, Director, Division of Depositor and Consumer Protection ("DCP")—who would be providing an update on the Community Banking Initiative. Ms. Ryan stated that following this presentation, Diane Ellis, Director, DIR, and Richard A. Brown, Deputy Director and Chief Economist, DIR, would then provide a preview of a paper analyzing the 2016 Summary of Deposits survey.

Ms. Eberley began the discussion by providing an update on the follow-up activities from the Community Banking Conference held in April 2016. The first update concerned the *de novo* roundtable events. Ms. Eberley stated that since the last CBAC meeting there have been two additional events—one in Atlanta in late November 2016, and another in Dallas in early March, 2017. She stated that the final two events are scheduled in Kansas City and Chicago on May 11th and 31st of 2017, respectively. Ms. Eberley extended special thanks to Members Tolomer and Hanrahan for participating in the events. She remarked that the panels had the benefit of experienced bankers who had gone through the *de novo* process to share their experience and provide advice and guidance. Ms. Eberley stated that the process generated helpful information that was thereafter included in the Handbook for Organizers of *De Novo* Institutions.

Ms. Eberley next provided an update on the initiative for developing the next generation of bankers. She reported that in late October 2016, the FDIC hosted a discussion with universities and colleges that offered banking degrees to explore ways that the FDIC could partner such schools with the banking community and, in particular, community banks. Ms. Eberley stated that since October, the FDIC has held several follow-up meetings with national trade associations to explore next steps. Ms. Eberley reported that a national directory of all institutions of higher education which offer banking programs is currently in development. Ms. Eberley also mentioned that there have been discussions concerning how to identify additional schools for potential partnerships and facilitate internships that would provide beneficial experience for college students interested in banking careers and added that she hopes to provide more concrete information regarding such an initiative at the Committee's next meeting. Ms. Eberley also commented that preparations are ongoing for the Interagency Minority Depository Institution Biennial Conference to be held in April 2017 in Los Angeles.

Finally, Ms. Eberley mentioned two other activities that would be covered separately in later sessions. First, Ms. Eberley stated that in December 2016, the FDIC issued for comment the Handbook for Organizers of *De Novo* Banks. Second, Ms. Eberley mentioned that the FDIC recently finalized its EGRPRA report. Ms. Eberley then turned the presentation over to Mark Pearce.

Mr. Pearce began by providing an update on efforts underway to improve the pre-exam planning process, with the goal of providing the FDIC with a better understanding of institutions during the pre-exam process in order to enhance the efficiency and effectiveness of the onsite portion of exams. Mr. Pearce explained that based on feedback received from bankers, the process is being further refined. Mr. Pearce reported that later in 2017 DCP would be moving forward with transitioning the pre-exam process into two separate phases. The first phase, he explained, will take an overall look at the bank's compliance management to obtain a greater understanding of the bank and its risk profile. The second phase will involve requests that target the specific items within the scope of the examination. Mr. Pearce explained that the aim of bifurcating the process is to achieve a reduction in the volume of data and information requests while still retaining the overall goals of the pre-exam planning process.

Member Tolomer commented that The Westchester Bank had a positive experience with the streamlined pre-exam process and complimented Mr. Pearce and Ms. Eberley for their efforts in that area. Member Hartings asked whether the revisions to the pre-exam process resulted in any changes to the examiner's workbook regarding pre-exam questions relating to the Community Reinvestment Act ("CRA"). Mr. Pearce responded that there have not been significant changes to the CRA portion of pre-exam planning process or the handbook as it relates to the CRA. Mr. Pearce did note, however, that he would go back to evaluate whether any of the CRA pre-exam questions have changed.

Member Busse commented that Pacific Continental Bank is a growing institution and, as such, has benefitted from the pre-exam and survey processes as the Bank expands. Members Tolomer and Beard inquired as to whether it would be possible for the FDIC to coordinate with state regulatory agencies on scheduling CRA, safety and soundness, and compliance examinations in order to reduce the number of visits by the various regulators to banks

throughout the year. Mr. Pearce indicated his agreement that such coordination would be beneficial and that the FDIC seeks to achieve efficiency in that respect for both compliance and risk management matters. He noted that he would look into the issue further.

Member Menon asked whether the pre-exam planning process would cut down on the time for the safety and soundness exam. Ms. Eberley responded that the process is currently being evaluated. For example, Ms. Eberley said, a bank examination for the median community bank from start to finish (including offsite time) takes about 30 days. She stated that on average, approximately 33% of such exams are offsite. Ms. Eberley further reported that RMS is currently working through the Federal Financial Institutions Examination Council (“FFIEC”) on a project with technology service providers to generate standardized downloads of imaged loan files for those banks which image their loan files in order to better enable examiners to review loan files offsite and reduce the burden of the onsite portion of examinations. Mr. Pearce stated that this is a process that could potentially also be utilized for certain consumer compliance matters.

Chairman Gruenberg then asked if any of the Committee members had experience with their banks offering internships to students and, if so, whether this was a useful vehicle. Member Howard responded in the affirmative, noting that Liberty Bank has found internships to be extremely valuable to both the Bank and students. Member Hanrahan and several other Members also indicated a positive experience with the use of student internships at their respective institutions.

Ms. Ryan then introduced Diane Ellis and Richard A. Brown of DIR to provide an update on the community bank research agenda.

Ms. Ellis began by reminding the Committee that they each received a summary of the April 2016 Community Banking Conference and added that transcripts of the Conference are available on the FDIC’s website. Ms. Ellis then introduced Mr. Brown to provide an update on a recently completed paper concerning deposit data.

Mr. Brown stated that bank consolidation is an ongoing trend, with the number of charters declining by two-thirds since the mid-1980s. He added that while the definition of “community bank” has remained consistent over this time—generally referring to a bank that does lending, relies on core deposits, and has a limited geographic area—the median size of these banks have increased over time, rising from \$40 million to \$186 million.

Mr. Brown next mentioned that the FDIC has become increasingly reliant on the Summary of Deposits data to study the physical presence of branch offices. He stated that in 2015, the FDIC released a paper titled “Brick and Mortar Banking Remains Prevalent in an Increasingly Virtual World” (“2015 Paper”), which showed a long-term increase in total banking offices over time. Mr. Brown stated that this increase was interrupted by two events: the banking crises of the late 1980s and early 1990s, and the financial crisis in 2008.

Mr. Brown then introduced to the Committee the authors of the latest paper, Angela Woodhead, Nate Hinton, and Derek Thieme. In summary, Mr. Brown stated that the most recent

paper shows that that decline in the number of brick and mortar offices has continued in 2016 during a post-crisis period in which deposit funding has generally been abundant.

Using a slide deck, Mr. Brown provided an overview of the paper. The first chart showed that the total number of banking offices operated by FDIC-insured institutions fell in the year ending in June 2016, marking the seventh consecutive annual decline. During the year ending in June 2016, the number of banking offices declined by 1.5% to 91,851—a rate of decline which has remained fairly constant since 2009, a year that marked a historic highpoint with a total of 99,450 offices. Despite the continued decline in physical offices in the most recent year, Mr. Brown noted that the growth in total deposits remained strong at 5.8 percent, though still slightly lower than the five-year average growth rate of 6.4 percent. Mr. Brown stated that this data explains the title of the new FDIC paper: “Banks Attract More Deposits While Operating Fewer Offices.”

Mr. Brown next discussed the density of banking offices per 10,000 persons, a topic first explored in the 2015 Paper. Referring to a chart tracking the total density of banking offices since 1994, he explained that until recently total density had remained fairly steady over time at around three offices per 10,000 persons, with a slight peak immediately prior to the 2008 crisis (then rising to 3.22 offices per 10,000 persons). Since the pre-crisis peak, density has decreased for eight consecutive years. Mr. Brown explained that by the middle of 2016, total density stood at 2.81 per 10,000 persons, the lowest of this metric in at least 30 years.

Mr. Brown pointed out that the total amount of deposits per banking office has roughly doubled since 2004, reaching just over \$122 million by the middle of 2016. The trend of rising deposits per office has accelerated since 2010 at an approximate annual rate of 7.8 percent. Mr. Brown also highlighted the differences in the density of offices per 10,000 persons across county types, a topic first explored in the 2015 Paper. Mr. Brown noted that the 2016 Paper extends this analysis forward two years, reflecting persistent differences in density for rural, micropolitan (i.e., counties with populations of 10,000–50,000), and metropolitan counties. Density remains substantially higher in rural and micropolitan counties than in metro counties, a difference that Mr. Brown stated could be attributed to greater distances and travel times between banking offices and the populations they serve. The 2016 Paper’s update of this analysis shows a recent decline in overall density that is most pronounced in metropolitan counties.

Next, Mr. Brown discussed how these trends have specifically affected community banks. A comparison of one-year growth rates in total deposits shows that deposits are growing faster overall in metropolitan counties than in micropolitan or rural counties. He cited previous research showing that between 1980 and 2010, total population grew in 88 percent of the metropolitan counties and 70 percent of the micropolitan counties, but grew in only 50 percent of the rural counties. By 2011, metropolitan counties accounted for 84 percent of the United States’ total population and 88 percent of our economic output. However, Mr. Brown added, the analysis of one-year growth rates shows that deposits during this time increased more quickly in community banks than non-community banks in all three county types.

Mr. Brown next discussed the importance of merger adjustment in calculating growth rates for subgroups of institutions. By fixing the identification of group members at the end of

an analysis period, identifying any merger targets for those institutions, and ensuring that balance sheet components of target institutions are fully reflected in prior period balances for their respective acquirers, merger adjustment provides for a more accurate comparison. Mr. Brown explained that without merger adjustment, growth calculations would show community bank offices declining during the year ending in June 2016 and community bank deposits growing much slower than non-community bank deposits. However, with merger adjustment, community bank offices are shown to increase slightly and community bank deposits are shown to increase at a rate (5.8 percent) that is only slightly lower than deposit growth at non-community banks (6.1 percent).

Mr. Brown concluded his presentation by stating that despite decreases in the total number and density of banking offices, total deposits continue to grow at both community and non-community banks which helps to support loan growth. Mr. Brown added that the FDIC *Quarterly Banking Profile* (“QBP”) now includes a community bank section, with the most recent QBP showing total loan growth of over eight percent at community banks in the previous three years, which he described as a “pretty healthy clip.”

Mr. Brown then welcomed the Committee to engage in a discussion on strategic viewpoints on physical versus virtual presence for community banks and how either may impact a bank’s deposit gathering and expense control.

Member Scully asked how merger adjustments account for the total number of offices and volume of deposits over time, and whether all offices and deposits from an acquired institution are excluded in the analysis. Mr. Brown responded that if, for example, one institution has acquired three others during the relevant analysis period, merger adjustment would compare the acquiring institution’s data from a prior period to the current one, taking into consideration the number and amount of offices and deposits obtained from the three acquired institutions to reach a figure that reflects organic growth. Mr. Brown explained that merger adjustment essentially removes structural change as a source of growth to provide a more accurate analysis.

Member Hartings asked if the research had a breakdown of growth in deposits by mix. Mr. Brown responded that a breakdown by mix is not part of the 2016 Paper, but, nonetheless can be found in the community bank section of the QBP. Ms. Ellis then asked Member Hartings and the Committee in general if there was a particular question they thought the FDIC should be exploring in terms of the composition of deposits. Member Hartings responded stating that if, for example, all of the growth is in demand deposit accounts (“DDA”) and money market deposit accounts (“MMDA”) rather than in certificates of deposits (“CD”), the distinction could provide greater insight into liquidity.

Member Busse commented that Pacific Continental Bank has become more efficient with the same number of offices. Member Scully then commented that branches may serve different purposes today than they have historically—for example, as sales and service locations instead of transaction hubs. Mr. Brown asked about the role of branch offices in lending overall and specifically in business lending. Member Busse responded that in his opinion they are an important element in lending. Member Tolomer commented that in his experience, generally

there is a positive impact from having a branch. He further commented that people respond positively to seeing a branch in their neighborhood and that he has received feedback from customers that they felt more comfortable banking with his institution because of the branch near their homes. Member Scully commented that branches are a way of branding by way of a “billboard” effect, with the physical location serving as a form of advertisement to the community that the bank is open and doing business in their area. Member Howard agreed that a branch can have this “billboard” effect, although it is a very expensive “billboard.” Member Baer Paine commented that in her view, the biggest challenge is determining whether a full-service facility is the best way to service small communities of 400–1,000 people.

Ms. Eberley then asked Member Scully whether breaking down deposits by mix for the Summary of Deposits survey would be manageable for community banks. Member Scully responded that although it would involve more data fields, community banks have the data and it could be accomplished.

Ms. Ryan thanked the panel and introduced the next session by welcoming Ms. Eberley to provide a presentation on the Handbook for Organizers of *De Novo* Institutions (“Handbook”).

Ms. Eberley began by reminding the Committee that each Member was provided a copy of the Handbook and cautioned that it is still in draft form after being put out for comment in December 2016. Ms. Eberley stated that the Handbook represented the FDIC’s effort to fulfill a commitment made by the Chairman at the April 2016 Community Banking Conference to publish guidance for banks on applying for deposit insurance. Ms. Eberley added that the Handbook is designed to familiarize organizers with the deposit insurance application process through a plain-language overview of the various requirements and considerations.

Ms. Eberley explained that the Handbook is divided into three primary parts addressing (1) pre-filing activities, (2) the actual application process, and (3) pre-opening activities. Ms. Eberley then provided an overview of some of the topics from these areas that were discussed at the various *de novo* events held by the FDIC.

Regarding pre-filing activities, Ms. Eberley commented that the feedback from the *de novo* events stressed the importance of pre-filing meetings; particularly that of good communication from the outset. To this point, Ms. Eberley explained that pre-filing meetings provide an opportunity to establish a point of contact for an organizing group. She stated that at this stage, each institution is assigned a case manager to handle reports, examination reviews, regular correspondence, and any applications that are filed. Ms. Eberley explained that the relationship between the institution and a case manager starts at a pre-filing meeting; the case manager attends the meeting and is assigned to that bank long-term. Ms. Eberley also commented that pre-filing meetings help highlight any red flags in a proposal and allow for such issues to be addressed early on. Ms. Eberley also reminded the Committee that there can be multiple exploratory meetings prior to filing of an application for deposit insurance. Next, Ms. Eberley explained that a timeline is provided in the Handbook of what to expect in terms of communication throughout the process. Ms. Eberley then provided a detailed overview of the timeline.

Ms. Eberley stated that the timeline is based on a four to six month horizon. She indicated that within three days of filing an application, the institution's case manager will acknowledge receipt. Ms. Eberley commented that over the next 30–45 days, the case manager will review the application in detail. She explained that once an application has been accepted and is substantially complete, the next step is a field investigation. Ms. Eberley then provided an overview of the field investigation process.

One of the points that Ms. Eberley stressed is that during the field investigation process, the institution's board of directors has to “own the business plan.” In other words, she explained, there could be pressure from shareholders or a sense among board members that the bank may consider a different business plan at a later time, but that throughout the field investigation process, the board has to adhere to the business plan as submitted.

Ms. Eberley then discussed the amount of capital needed, which she stated is based on the business plan submitted and should take into account the institution's proposed marketplace. Ms. Eberley stated that the only constraint on capital is the \$2 million minimum in the 1998 statement of policy.

Ms. Eberley next emphasized the importance of the range of experience among an institution's management team and the proposed governance structure and its related infrastructure. She explained that bank and board policies, internal controls, and the establishment of audit processes are all important elements of the startup activities.

Ms. Eberley next discussed information technology and the importance of the *de novo* bank's contracts with technology service providers (“TSPs”) and/or its core processor. Ms. Eberley stressed the importance of this issue, explaining that the focus should be to negotiate a contract with the core processor that will suit the institution for long-term. Ms. Eberley commented that the *de novo* bank should look to FFIEC guidance as part of contract negotiations with a TSP and/or a core processor.

Ms. Eberley then welcomed any questions or comments from the Committee.

Member Tolomer asked whether the FDIC interviews board members as part of the *de novo* process. Ms. Eberley responded in the affirmative, noting that directors are interviewed both individually and as a group. Member Hanrahan complimented Ms. Eberley and her staff on the Handbook and stated that it demonstrated the FDIC's sincerity about having an open door for *de novo* institutions. Several other members of the Committee, including Members Busse and Scully, agreed with his statement. Member Hartings asked Ms. Eberley to provide an update on the number of *de novo* applications currently in process. Ms. Eberley responded that the FDIC has six currently in process and that since 2011 there have been five *de novo* applications approved, four of which have since opened. Ms. Eberley added that of the six active applications, most were received in the latter half of 2016. Member Hartings asked about the geographical location for these applications. Ms. Eberley stated that there are two in the San Francisco area, two in the Dallas area, and two in the Atlanta region. She further responded that there has been significant pre-filing *de novo* activity, with the FDIC seeing expressions of interest in conducting exploratory meetings and other activities of a similar nature.

Member Menon asked if Ms. Eberley could provide an idea of the capital levels for the *de novo* banks currently in process. Ms. Eberley responded that of the six current applicants, the highest has roughly \$30 million in capital. Member Beard asked if Ms. Eberley could speak to what form of capital was involved. She responded that it has been largely community-based, widely-held capital.

Ms. Ryan then thanked Ms. Eberley for her presentation and the Committee adjourned for a mid-morning break.

(Where upon, the above-entitled matter went off the record at 10:09 a.m. and resumed at 10:29 a.m.)

Ms. Ryan welcomed everyone back and introduced the next panel to provide the Committee with an overview of the FFIEC's EGRPRA Report to Congress. Ms. Ryan explained that the Report was issued in the week prior to the Committee's meeting and summarizes the Federal banking regulators efforts to review regulations, as is required by EGRPRA to occur every ten years. Ms. Ryan then invited Roberta McInerney, Deputy General Counsel, Legal Division; Ruth Amberg, Assistant General Counsel, Legal Division; George French, Deputy Director, RMS; and Rae-Ann Miller, Associate Director, RMS to make their presentation.

Ms. McInerney began by reporting that the Federal banking agencies recently submitted the EGRPRA Report to Congress on March 21, 2017 and that it is expected to be published in the Federal Register soon. Ms. McInerney indicated that the Report outlines how the three-year EGRPRA review was conducted and what agencies have done to address regulatory burden. She also stated that the report outlines further measures to be taken to address issues identified through the EGRPRA process.

Ms. McInerney provided a brief background and overview of the EGRPRA review process, explaining that the Federal banking agencies must conduct a review of regulations every ten years to identify outdated or unnecessary regulations. Ms. McInerney stated that consistent with EGRPRA, the agencies regrouped regulations into 12 regulatory categories and sought comment from bankers and other stakeholders through four Federal Register Notices, each addressing three broad categories of rules and providing a 90-day comment period. She also stated that the agencies held six public outreach meetings across the country to provide an opportunity for bankers, consumer and community groups, and other interested persons to present their views directly to senior management and staff on any of the regulations subject to EGRPRA review.

Ms. McInerney then turned the presentation over to Ms. Miller to provide an update on the specifics of the Report as well as some highlights.

Ms. Miller began by stating that the Report describes several joint actions that the agencies have taken or plan to take. She explained that there are four main areas: (1) simplification of regulatory capital rules for community banks and savings associations; (2) streamlining call reports; (3) a potential increase of the appraisal threshold for commercial real estate loans as well as several other appraisal-related actions; and (4) consideration of

expanding the number of institutions eligible for less frequent examinations for safety and soundness and Bank Secrecy Act (“BSA”) reviews. Ms. Miller then turned the presentation over to Mr. French to discuss regulatory capital.

Mr. French began by stating that the Report indicates that the Federal banking agencies are developing a proposal to simplify the generally applicable capital framework for risk-based capital. He explained that the proposal in part focuses on replacing the current treatment of high volatility commercial real estate (“HVCRE”) with a more straightforward treatment. Mr. French next stated there is also a project aiming to simplify Call Reports through which a number of banks were visited to determine which areas of the Call Report required the most manual intervention. Mr. French commented that it was significant that the HVCRE was high on the list of areas that required manual intervention. Next, Mr. French stated that the Report highlights a focus on revisiting the current regulatory capital treatment for mortgage servicing assets, timing differences re: deferred tax assets, and holdings of regulatory capital instruments issued by financial institutions. He explained that because there is a deduction treatment in the Basel III rule (10% of capital for each of those assets and then a 15% aggregate), a certain amount of management complexity has arisen in dealing with the regulatory capital treatment of those assets. Mr. French stated that the ultimate goal is to reduce the complexity in this area.

Finally, Mr. French stated that the Report covers the current limits on NARDI interest and regulatory capital. He explained that these rules are extremely detailed, lengthy, and somewhat complex and the agencies intend to find a way to simplify these rules.

Mr. French then turned the presentation back over to Ms. Miller.

Ms. Miller then went over the section of the Report dealing with Call Reports. She explained that there have been ongoing efforts to study issues related to the Call Report preparation process and associated burdens, as well as the streamlining of the Call Report itself. Ms. Miller explained efforts related to Call Reports involved a two-year process which included meetings with bankers and trade associations. Ms. Miller further explained that the intent was to accomplish goals on a “flow basis,” which has involved the FDIC’s issuance in July and August of 2016 of certain burden-reducing changes in two different releases, followed by the finalization in December 2016 of the new streamlined FFIEC 051 Call Report (“FFIEC 051”) for institutions with domestic offices only and assets of less than \$1 billion dollars. Ms. Miller explained that FFIEC 051 was created from the O41 and removed certain existing schedules, eliminated certain other data items, and reduced the reporting frequency of a number of items. In particular, she stated, the reporting frequency was reduced for the schedule for small loans, loans of small businesses, and loans for agricultural operations. Ms. Miller stated that FFIEC 051 will take effect on March 31, 2017 and reduces the Call Report’s total length from 85 to 61 pages, removes approximately 40% of the data items that were in FFEIC O41, and includes a shorter instruction booklet. Finally, Ms. Miller pointed out that there is openness in the Report on the issue of expanding access to FFIEC 051 to institutions over the \$1 billion threshold. She also stated that there is an appendix to the Federal Register notice publishing the Report for comment that lists the reasons why certain items were kept in the new Call Report.

Next, Ms. Miller discussed appraisals. She explained that the Report proposes to increase the threshold for required appraisals to transaction values of \$400,000 or less (the current threshold is \$250,000 or less). Ms. Miller also pointed out that the Report discusses issuing a statement to FDIC-regulated entities to inform them of the availability of the Appraisal Subcommittee of the FFIEC, which has the authority (with the approval of the FFIEC) to grant temporary waivers of appraisal requirements in rural areas. Ms. Miller also reported that in March of 2016, the FDIC issued a reminder on when an evaluation can be performed in lieu of an appraisal.

Ms. Miller next reported on updates on examination frequency. Ms. Miller stated that Congress enacted the Fixing America's Surface Transportation Act ("FAST Act"), which gave the FDIC discretion to raise the asset threshold for certain insured depository institutions ("IDIs") that qualify for the 18-month exam cycle. She explained that the threshold rose from less than \$500 million to less than \$1 billion. Ms. Miller stated that after this increase, the FDIC in January of 2017 issued a joint interim final rule to raise the asset threshold; as a result, approximately 600 more institutions may potentially qualify for the extended cycle, with the number of potentially qualifying institutions increasing to approximately 83% of all IDIs. Ms. Miller then stated that, in general, the Federal banking agencies review BSA compliance at the same time as safety and soundness. So, she explained, institutions that fit between those asset sizes are now potentially eligible for less frequent BSA reviews as well.

Ms. Miller next discussed several FDIC-specific initiatives. She first discussed *de novo* banks. Ms. Miller reported that *de novo* banks were a frequent topic of comment, both in the written comments and in EGRPRA outreach sessions and other forms of outreach. Ms. Miller explained that the FDIC rescinded Financial Institution Letter ("FIL") 50-2009, "Enhanced Supervisory Procedures for Newly Insured FDIC Supervised Institutions." Ms. Miller explained that the effect of rescinding this FIL was a reduction in the period for enhanced supervisory monitoring of newly-insured institutions from seven to three years.

Ms. Miller next provided an overview of changes to the deposit insurance application process. Ms. Miller explained that the goal was to reduce burden in applications, examinations, and supervisory processes. Ms. Miller commented that the FDIC eliminated requirements for institutions to file applications under Part 362 of the Federal Deposit Insurance Act to conduct activities permissible for National banks through certain bank subsidiaries that were organized as LLCs.

Ms. Miller next commented about outstanding Office of Thrift Supervision ("OTS") rules and regulations which remained on the books, indicating that so far the FDIC has rescinded 16 rules and incorporated them into rules for institutions that were transferred to the FDIC upon closing of the OTS.

Ms. Miller reported on the Director's Resource Center, the FDIC's updated website, and the availability of technical assistance videos. She also pointed to the community bank QBP and the detailed picture presented therein that, she said, is hopefully helpful to community banks.

Ms. Miller next commented on enhanced communication efforts. She stated that the FDIC issued updated guidance earlier in the year called “Reminder on FDIC Examination Findings” that re-emphasizes the importance of open communication regarding supervisory findings. She also commented that there was an additional informal review process at the division director level discussed in that Financial Institution Letter (“FIL”) for banker concerns that might not be eligible for another review process.

Ms. Miller next commented on efforts to improve transparency in developing guidance and supervisory recommendations. In this regard, she reported, that the FDIC Board has issued two statements to assist in the development of supervisory guidance and recommendations and in communicating those items to individual institutions.

Ms. Miller also reported on possible future improvements referenced in the Report and discussed the process of generating the Report. She summarized several areas where the use of technology can be used to minimize regulatory burden for bank management and discussed potential improvements to the format of the examination report and certain supervisory tools.

Ms. Miller then welcomed questions and comments from the Committee.

Member Hartings asked if there were many comments on TDRs, specifically, the “life of the loan” label that is put on a TDR. Ms. Miller responded that the FDIC did not receive any comments on TDRs because it is a pronouncement from the Financial Accounting Standards Board and thus is not required under FDIC regulations. Member Scully asked if Ms. Miller could summarize the Financial Crimes Enforcement Network (“FinCEN”) response to some of the concerns about suspicious activity reports (“SARs”). Ms. Miller responded that FinCEN did provide a letter response to concerns about SARs which essentially states that while FinCEN is aware that SAR compliance is burdensome, the data is very helpful and therefore necessary to FinCEN’s work.

Chairman Gruenberg commented that a review of the exam process has the potential to reduce regulatory burden for institutions and welcomed any thoughts from the Committee members on how the exam process might be improved.

Member Hartings commented that time on-site is how he tends to judge the burden of examinations; in his opinion, if it could be reduced from three weeks to two weeks, then that would be an improvement. Several other Committee members commented that the focus should be on the quality of the actual examination time through use of pre-exam planning, technology, or other improvements.

Member Tolomer noted that he is in the practice of calling his local FDIC Division contact to schedule a meeting after every quarter to review the prior quarter’s events. Member Tolomer further commented that this practice has proven successful and encouraged other bankers to employ a similar approach.

Ms. Ryan then thanked the panel and the Committee adjourned for lunch.

(Whereupon, the above-entitled matter went off the record at 11:18 a.m. and resumed at 1:16 p.m.)

Ms. Ryan welcomed everyone back from lunch and introduced the next panel on credit risk trends and supervisory expectations, topics that were outlined in the Supervisory Insights Journal article from the 2016 winter edition (“SIJ”). Ms. Ryan introduced Ms. Eberley, Mr. French and Ms. Miller to lead the discussion.

Ms. Miller then began a discussion concerning trends identified in the SIJ and elicited feedback from the Committee members on the issues raised therein.

Ms. Miller utilized a slide deck to make her presentation. She explained that the slides were pulled from the SIJ article, the text of which was provided to the Committee. Ms. Miller stated that the article looks at three different loan segments: (1) commercial real estate (“CRE”); (2) agricultural and (3) oil and gas. These were chosen, Ms. Miller explained, because of trends in those areas related to the actual lending, the underlying fundamentals, and the importance of such loans to institutions.

Ms. Miller noted that, as of September 16, 2016, year-over-year growth in total loan balances stood at about 6.8 percent. Ms. Miler commented that a large majority of banks (approximately 80 percent) experienced growth in their loan portfolios.

Ms. Miller explained that the SIJ article used Call Report data to obtain information about the three loan categories. Ms. Miller pointed out that there has been growth in each category, noting that CRE lending has reached over \$2 trillion—this exceeds the previous high of about \$1.9 trillion in 2008.

Ms. Miller next explained that more recent growth has been centered on the non-farm/non-residential category, which represents the largest of the categories in general. Ms. Miller stated that there has been good growth in the acquisition, development and construction segment and that this growth is up from a previous low mark following a sharp decline after the 2008 crisis. She stated that essentially growth in this category is being driven by demand.

Next, Ms. Miller discussed the trend in the number of banks that meet the supervisory criteria in the 2006 guidance. She explained these are banks that have total acquisition, development, and construction (“ADC”) loans of 100 percent or more of total capital and those that have concentrations in non-owner-occupied CRE and a three-year growth rate of 50 percent or more. To illustrate her point, Ms. Miller read a quote from the guidance: “An institution that has experienced rapid growth in CRE lending has notable exposure to a specific type of CRE or is approaching or exceeds the following supervisory criteria may be identified for further supervisory analysis of the level and nature of its CRE concentration risk.” Ms. Miller explained that the SIJ article also goes into some depth about the consequences of concentrations are not prudently managed. Ms. Miller mentioned that there are several good studies cited in the article which show that aggressive growth in CRE lending alongside poor risk management practices, underwriting, and loan administration were the proximate cause of most of the bank failures during the 2008 crisis. Ms. Miller added that another element contributing to the likelihood of

failure was heavy reliance by banks on wholesale funding for growth. Ms. Miller pointed out that there was a separate study performed on the ADC lenders that survived the 2008 crisis and the factors which helped them survive included a well-informed and active board of directors, strong risk management practices, adequate capital, and a tendency to heed auditor and examiner recommendations.

Ms. Miller then discussed how the institutions that meet the supervisory criteria are performing over time and how they compare to the general population. Using a slide deck, Ms. Miller explained that the median institutions that exceed the supervisory criteria have currently higher pre-tax return on assets (“ROA”) than other institutions, but operate with a generally higher risk profile. Specifically she explained, the institutions exceeding the criteria tend to have lower capital, leverage capital ratios, lower total risk-based capital ratios, and a higher reliance on wholesale funding. Ms. Miller pointed out that with respect to capital, since the publication of the 2006 guidance, median leverage ratios for banks that meet the supervisory criteria have been roughly just over half of a percentage point to about two percentage points lower than the median for the general population. So, she explained, institutions that exceed the criteria as a group are also exhibiting faster loan growth than other institutions. Ms. Miller further explained that sometimes when a bank is growing, its growth can mask increasing risk because the growth typically drives down the ratio of past due loans and charge-offs and can make the allowance for loan and lease losses appear lower. Ms. Miller also reported that loan delinquencies for institutions exceeding the supervisory criteria were much higher for a longer period of time than for other institutions.

Ms. Miller then moved to the sixth slide illustrating the performance of the institutions that meet the supervisory guidelines. Ms. Miller pointed out that the median pre-tax ROA for ADC lenders dropped very steeply and was then in or near negative territory for about three years in the aftermath of the 2008 crisis. She stated that earnings criteria for institutions that met the growth prong was worse than other institutions, but tended to be at the beginning of the period, the late 2000s and early 2010s.

Ms. Miller next discussed slide 7. She explained that slide 7 demonstrates an emerging trend regarding the use of wholesale funding by institutions which exceed the supervisory criteria. Ms. Miller explained that the use of wholesale funding by institutions with concentrations in ADC lending has trended downward, though still remains slightly higher than that of other institutions. However, the use of wholesale funding by institutions exceeding the CRE growth prong of the supervisory criteria remains quite a bit higher than that of other institutions.

Ms. Miller moved on to slide 8, noting that within the category of weakening underwriting practices, the FDIC is observing increasing (and in some cases excessive) use of cash-out financing and IO-type of lending, sometimes together, and particularly in certain highly competitive markets. Ms. Miller further stated that the FDIC is observing only lower capitalization rates in various segments of CRE lending, particularly in the multi-family segment. Ms. Eberley clarified that these issues are being observed primarily at those institutions where the FDIC is citing weakness. Ms. Eberley stressed that these observations do not apply to every

institution that is concentrated in the areas referenced. Ms. Miller agreed with Ms. Eberley and stated that these weaknesses are not widespread.

Ms. Miller next discussed agriculture lending. She pointed out that roughly one in four banks in the United States is characterized as an agricultural (“AG”) lending or “AG bank.” She explained that the historical definition of an AG bank is a bank where AG loans comprise 25 percent or more of the bank’s total lending. Ms. Miller explained that the SIJ article centers on a more focused group of banks that had a 300 percent concentration or more of their respective total capital in AG loans. Ms. Miller stated that as of September 2016, there were 500 banks that had such a concentration. She explained that slide 9 shows AG loans are growing in general after being flat during and immediately after the crisis. Ms. Miller explained that this rise in AG lending is due to a number of factors, including a number of farmers who elected to self-finance prior to the 2008 crisis (at a time when they were flush with cash due to higher prices during the early 2000s) but now are seeking external financing after having exhausted those reserves and are experiencing diminishing working capital positions.

Ms. Miller next discussed a chart of median ratios (referring to page 10). Ms. Miller indicated that the chart shows AG banks that have 25 percent of their loans in AG and also 300 percent concentrations. Ms. Miller pointed out that similar to the CRE concentrated institutions, those banks with AG concentrations have higher earnings than the general population, but are also operating with somewhat lower capital ratios and employing greater levels of wholesale funding. Ms. Miller further pointed out that unlike CRE, AG loan growth rates are slower than other institutions. She further explained that institutions with AG concentrations have slightly lower ratios of past due loans and slightly lower allowances relative to other institutions.

Ms. Miller next mentioned that the SIJ article contains time series charts that show performance of AG banks over time. She pointed out that AG banks that are concentrated generally weathered the 2008 crisis much better than other types of institutions. Ms. Miller explained that their financial performance as a whole remained very good heading into 2016. Ms. Miller stressed that none of these institutions—neither those with 25 percent of total loans in AG nor the AG concentration institutions—experienced the pronounced decline in pre-tax ROA that other institutions experienced during and after the 2008 crisis.

Ms. Miller next pointed out another emerging trend for AG banks and AG-concentrated banks: A recent increase in reliance on wholesale funding over the last few years. Ms. Miller explained that this may be due to the institutions’ needs to meet increasing loan demand from farmers in response to stressed farm income.

Ms. Miller next discussed oil and gas lending. She explained that unlike CRE and AG, the FDIC does not have a Call Report item that tracks oil and gas lending. Ms. Miller stated, however, that some of the larger banks have issued public pronouncements about their exposures regarding publicly-available shared national credit results which talk about disproportionate impact from oil and gas lending.

Ms. Miller explained that the FDIC looks at overall commercial and industrial (“C&I”) lending; delinquencies in this area have gone up over the last few quarters, which may be driven

at least in part by oil and gas lending. She explained that it is easier for the FDIC to analyze direct lending to oil and gas producers through C&I loans, while it is harder to analyze other more indirect forms of oil and gas related lending. Ms. Miller explained that slide 12 of her presentation attempts to capture the performance of such indirect lending. She explained that slide 12 therefore shows the median, non-current, and past due rates for banks domiciled in three energy-dependent states (Texas, Louisiana, and Oklahoma) and compares those rates to other institutions. Ms. Miller further explained that feedback from examiners indicated that very few banks have direct exposure to oil and gas lending, but that some banks do have downstream exposure through lending to industries that support the oil and gas industry.

Ms. Miller next explained that slide 13 contains a chronological list of pronouncements that the FDIC has issued on lending, both in general and in relation to the particular issues addressed by the SIJ article. She stated that the FDIC has longstanding expectations for prudent risk management and that FDIC guidance centers around adopting and implementing lending policies, practices, and underwriting which are appropriate for the size and complexity of the bank's business model; maintaining strong administration and oversight of lending activities and related funding strategies, including the emerging trend of increased wholesale funding; and ensuring adequate allowances and capital levels. Ms. Miller stressed that risk management around loans is critically important. She commented that loans are usually the biggest asset class at most institutions. Ms. Miller discussed the conclusion of the SIJ article addressing the serious consequences of a failure to appropriately manage risk and emphasizing that now is the time to focus on strengthening the risk management practices as portfolios and concentrations are building and before problems impact a bank's bottom line. Ms. Miller also emphasized the importance of good underwriting when loan demand is strong. She explained that competition can sometimes tempt institutions to do something they might not normally do (e.g., underwriting standards get loosened and loan administration practices can weaken) and cautioned against this.

Mr. French commented on the use of wholesale funding by banks with CRE and AG concentrations. He stated that the SIJ article points out that as a group banks with CRE and AG concentrations are making greater use of wholesale funds including broker deposits and listing services. Mr. French pointed out that there is nothing inherently wrong with the use of wholesale funds, as they can help match imbalances between prudent lending opportunities and core deposit availability in local markets. He further stated that wholesale funds can also help banks that are trying to match maturities between assets and liabilities. So, Mr. French stated, there is certainly room for prudent use of wholesale funding. He explained that part of the difficulty of assessing the risk offsite is that examiners need to understand the risks the banks are taking on the asset side—examiners need to know more about what the banks are doing with these funds. Mr. French stated that another important aspect of what examiners need to see when onsite is the bank's overall funding strategy. This, Mr. French explained, can be difficult to assess once offsite.

Mr. French indicated that a confluence of concentrated and risky or rapidly growing loan portfolios with reliance on wholesale funding is a risky mix. In this regard, he explained, it is advisable to practice prudent and sound underwriting (particularly in light of the changing interest rate environment) and the other practices that Ms. Miller previously discussed and that are reviewed in the SIJ article.

Mr. French then welcomed any questions or comments and asked specifically if the Committee members could comment on market concentrations and what the members have observed on the funding side in terms of deposit pricing and depositor behavior.

Member Howard commented that in his market area (his bank is headquartered in Connecticut), he has not seen any increases on the funding side. He further stated that the larger institutions and even the smaller institutions in his area appear to be holding stable on the funding side. Member Howard further commented that those institutions have a lot of variable rate loans and, as a result, are obviously beginning to enjoy a wider spread there.

Member Busse commented that his bank has not experienced noticeable change with increased interest rate activity on the deposit side. He further commented that with regard to core deposits, Pacific Continental Bank is primarily funded with such deposits. Member Busse further commented that he anticipated pressure in the event of further interest rate increases. Member Busse then opined that if a bank largely utilizes fixed rates, it may soon experience a squeeze as a result of this business approach. He commented that there is also pressure now on the competitive front with customers trying to lock in rates, which he opined may create an increase in loan activity that could create an additional future squeeze. However, Member Busse stated that there has not yet been a noticeable change.

Member Scully commented that Howard Bank has not yet experienced pressure on deposit pricing. She further commented that her institution has witnessed a slight increase in fixed rate loans, but has found it interesting that there still appears to be a large appetite on the part of her competitors in doing 10-year fixed rates and, in some cases, 15-year fixed rates loans. Member Scully stated that this could, however, be viewed as reflective of the yield curve for the 10-year rate which has not changed as much as the short-term rate. Member Scully explained that her institution is usually less concerned about rates and their yields because it employs a similar funding strategy to that used by Member Busse.

Member Scully next commented on the Commercial Mortgage-Backed Security (“CMBS”) market and that she did not know how much of what is happening now in that market is an increase in CRE activity as opposed to more of a shift in market share as customers shy away from the CMBS market for refinancing, resulting in banks getting a bigger share. Ms. Miller responded that this market share trend was definitely evident, especially in the larger institutions.

Member Dakri commented that he has seen something a little bit unusual, in depositor behavior at Wallis State Bank due to its presence in both metropolitan and rural areas. He explained that in the metropolitan areas, (specifically, Houston and Dallas) there has not been much movement in rates, but that in the rural areas he has witnessed many banks (in the last year or so) increasing their CD rates.

Member Boeka commented that, in her view, many of Americas United Bank’s clients are desensitized and fatigued and because of that she has not yet witnessed flight to other sources. But, she cautioned, it is still early in the game. Member Hartings commented that

while The Peoples Bank Co. is not considered an AG bank, it still does a fair amount of agricultural lending. He observed that he has continued to see funds being used out of their accounts, with farmers drawing from their DDA balances rather than pursuing financing. Ms. Eberley commented that this is consistent with what the data showed in the SIJ article; in the Kansas City region, most farmers have gone from being depositors to borrowers.

Member Beard asked if there is a study that has looked at non-interest bearing deposits and how they have reacted historically. He explained that his bank, People's Utah Bancorp, has about 31 percent of deposits that are non-interest bearing. He further explained that when there is over a one percent move in rates, there might be a reaction and people may suddenly pay attention. Ms. Miller responded that she was not aware of any study on the behavior of deposits, but did find it interesting. Ms. Miller further commented that there has not yet been a cycle with conditions like those that currently exist with the shift in account opening procedures from in-person to online.

Member Menon then asked a general question on capitalization rates, inquiring whether anyone was experiencing changes in that area. Member Howard responded that he thought that at the end of the day, his institution (Liberty Bank) was having trouble competing with the larger lenders. Member Busse agreed and commented that in his view, it is the larger institutions rather than the smaller community banks that they are competing against. He explained further that if there is a relaxing of standards or waiving of some kind of guarantee or recourse, it is being seen more in the larger institutions. Member Busse continued to comment that rates are more competitive and the larger institutions extend their terms.

The Chairman then asked for the Committee member's view on whether the lending activities discussed in the presentation are continuing in that fashion or whether there has been a change.

Member Scully responded in the affirmative, stating her opinion that the industry has reached (or is reaching) an inflection point. Member Howard opined that in his institution, an inflection point has been reached. He continued that whenever his institution has had the opportunity for a refinance with an existing customer, they would do it, but in most cases to a variable product. So, he continued, his institution now has a significant amount of variable paper. Member Hartings commented that his institution has about a 60 percent loan-to-deposit ratio, so it has investments to "burn off" if necessary. He explained that this might be another reason why there is not competition for rates as of yet. Liquidity, he said, is another issue. Member Scully commented that she thought it was possibly an example of the banks being more disciplined. Member Howard agreed and emphasized increased discipline on the deposit pricing side.

Member Howard commented that he has thus far not heard about plans to raise deposit rates at the Safe Banking Association meetings.

Member Beard then asked whether there has been a study of the credit unions, because, he explained, in Utah there is aggressive pricing on deposits from credit unions. Ms. Miller

responded that the FDIC currently does not have any projects underway, but that going forward, the FDIC will be very active observers along with the banking community.

Member Beard asked if the FDIC was coordinating with the National Credit Union Administration (“NCUA”) in terms of regulations or concerns that the FDIC or NCUA might have. Ms. Miller responded that the NCUA is on the FFIEC and, as such, the FDIC does have regular conversations with the NCUA.

Member Dakri then stated that in the Texas market, they are running counter-cyclical to the rest of the national economy. He commented that his institution was high when everyone else was low and now they have dropped down a little bit in the last couple of years with the oil prices coming down. Member Dakri commented that based on this and other data in the local area, he felt that they have reached an inflection point in the local Houston economy.

Ms. Ryan thanked Ms. Eberley, Mr. French, and Ms. Miller and then introduced the last panel concerning the Youth Savings Pilot Program and Symposium. Ms. Ryan reintroduced Mr. Pearce, Director, DCP; Janet Gordon, Associate Director, DCP; and Luke Reynolds, Chief of the Outreach and Program Development Section, to give the presentation.

Mr. Pearce began by referring to the report being released later today on the FDIC Youth Savings Pilot Program. Mr. Pearce commented that this report reflects the culmination of two years of research and study into the intersection between financial education and opening accounts for young people. Mr. Pearce commented that the FDIC has had a long-standing commitment to financial education and increasing access to the banking system. Mr. Pearce then introduced Ms. Gordon to make the initial presentation.

Ms. Gordon commented that the Youth Savings Pilot Program (“Program”) is part of a long-standing commitment to financial education by the FDIC. Ms. Gordon stated that the report is available online at fdic.gov/youthsavings. Ms. Gordon explained that the Program was a two-year initiative, involving 21 banks of all sizes, and that it was designed to link financial education to savings. She emphasized that the Program is part of the FDIC’s initiative to promote broad economic inclusion. She explained that schools are central to communities and the focus of the Program is on schools that have a significant proportion of low and moderate-income students with the aim of bringing these students into the financial system at a young age. Ms. Gordon commented that so far, the work of the banks in the Program has been very effective. Additionally, she stated, the Program coalesced parents, teachers, and other community members around the impetus to improve the lives of their children. This, Ms. Gordon stated, operated as a significant motivator for everyone involved.

Ms. Gordon explained that the Program began with the objective of identifying and highlighting approaches to experiential financial education that combined the financial education with the opportunity for a savings account. She explained that the FDIC asked for expressions of interest from institutions around the country and from the replies selected 21 banks, both those that had been engaging in similar initiatives for a number of years as well as institutions that were doing it for the first time. She explained that the FDIC had a significant number of individual and group interviews during the course of the two years. Ms. Gordon also said that

the FDIC held the Symposium and both banks and schools sent representatives. She stated that the Symposium was very informative and provided a great deal of positive feedback for the Program going forward.

Ms. Gordon then discussed the findings from the forthcoming report on the Program. She explained that the report contained more detail about the three basic program types that banks adopted. She further explained that the approaches used focused on the community, the bank, or the age of the children.

Ms. Gordon reported that the first program type involved the establishment of full-scale bank branches in schools, often through, a permanent branch on school premises which usually targeted and benefitted older students who might be working and have incomes. She explained that some banks used experienced bankers in the school, but also generally employed students in the branch as well. For student employees, the banks usually offered an extensive training program through a learning activity and career development approach. She also said that some banks used volunteer students. Ms. Gordon commented that the on-site bank branch allowed for financial education that was very hands-on, helped people save throughout the school year, and built a robust understanding of banks.

Ms. Gordon explained that the second model was in-school banking, which she described as having a banking day and showing up at the cafeteria, the library, or another location at the school to meet with a banker. This model ordinarily linked very closely to the teachers and their existing curriculum and also employed volunteer students (similar to some banks using the first model). She commented that this model was used more often with younger students (e.g., kindergarteners, or first and second grade students).

Ms. Gordon explained the third model involved banks simply performing financial education in the school. She explained that the banks using this model often took students to their local branch and sometimes had family days combined with a tour of the branch.

Ms. Gordon stated that one of the takeaways from the Program for bankers was the realization that a partnership with the school requires an investment and that it does not happen overnight. Another takeaway was the need to involve the students closely in the process. One of the more effective methods to achieve this, Ms. Gordon explained, was to have older students teaching their younger peers, thereby engendering a sort of leadership from the older students. The final takeaway for all involved in the Program was that there was a definite impact on the broader community. Ms. Gordon stated that three-quarters of the banks reported that they generated new accounts and new relationships as a result of Program involvement, which affected in a positive manner the banks' visibility in their respective communities and brought in potential long-term deposits. Ms. Gordon then turned the presentation over to Mr. Reynolds for a discussion about the characteristics of the accounts.

Mr. Reynolds began by stating that all banks in the Program offered savings accounts and some also offered transactional accounts, particularly for high school students. He stated that the accounts being offered generally were low-cost, consistent with the FDIC Safe Account templates. Mr. Reynolds stated that there were three common ownership structures: (1) non-

custodial accounts, allowing for minors to open these accounts in the school without needing a guardian to complete paperwork, resulting in a maximized learning opportunity for the students; (2) custodial accounts, where a parent or guardian was the custodian, which provided opportunities to involve parents in the program and were a preferred form of account for banks in the Program operating in a state where the state law was unclear about whether an institution can offer an account to a minor; and (3) trust or other administrative accounts held by a school or non-profit partner for the benefit of the student-depositor, which required the school or partner to take a leadership role and essentially function as the students' bankers. In other instances for this third account type, Mr. Reynolds stated a non-profit or community foundation wanted to facilitate a community-wide college savings program and open a custodial account at the bank.

Mr. Reynolds mentioned that in February of 2015 the Federal banking agencies issued guidance to encourage financial institutions to engage in youth savings programs and to answer related frequently asked questions. He indicated that this guidance is complemented by a tool the Conference of State Bank Supervisors released last year, which helps banks identify state laws pertaining to youth banking programs. Mr. Reynolds explained that this tool can assist in finding out if a state has a law specifically allowing minors to open accounts and/or allow for a state bank to operate a school program.

Next, Mr. Reynolds discussed financial education. Mr. Reynolds reported that banks in the Program found it was important to emphasize financial education in a way that connected to students' lives, such as saving for prom. He stated that in addition to peer-based financial education, banks found value in working with teachers to make in-class lessons relevant. Mr. Reynolds mentioned that banks did not always teach financial education in a formal way—it was not always classroom-delivered. He explained that banks occasionally viewed themselves as providing financial education during the life cycle of an account, one-on-one by the banker or via peer-based education with a student providing education to their colleagues.

Mr. Reynolds reported that during the Program, banks valued learning from one another. Mr. Reynolds stated that for FDIC-supervised institutions that desire involvement in a program that combines financial education with the opportunity for children to open a savings account, the FDIC is welcoming those institutions to express their interest in joining the Youth Banking Network. Mr. Reynolds stated that the Youth Banking Network is an opportunity for the FDIC to facilitate conversations and dialogue between banks on how to promote youth savings. Further, Mr. Reynolds indicated that the FDIC is open to receiving ideas on what it can do to build financial education resources so that they are more useful for schools, banks, and other youth-based financial education programs. Mr. Reynolds stated that information on the Youth Banking Network can be found at fdic.gov/youthsavings. Mr. Reynolds then turned the presentation back to Ms. Gordon.

Ms. Gordon stated that all of the existing Program-participating banks and those that were runners-up in selection for the Program will be invited to join the Youth Banking Network. Ms. Gordon welcomed any feedback and comments on the program.

Mr. Pearce commented that after participating in the Symposium, he was struck by three things. One, he said, is how hard the process is to put together; finding opportunities for an

institution to get involved in a school and teach financial education is in and of itself challenging and putting that together with also offering savings account opportunities takes a champion both at the bank and at the school. Second, Mr. Pearce stated that it was interesting to observe how much the banks that are involved in the Program wanted to talk to each other and their enthusiasm to share stories of how they were approaching the challenges and opportunities differently. In this way, Mr. Pearce stated, there was a significant amount of learning amongst the Program participants. Third and finally, Mr. Pearce stated that if the education is paired with the opening of an account, it really builds on both components and makes each of greater value than if one is done in isolation. He explained that it forms better long-term relationships with institutions, generates a more favorable view of banks among participants and the community, and fosters better savings behavior. Mr. Pearce observed that the program really changed the lives of some of the kids, especially those that participated in managing branches as many began to view banking as a potential career path.

Mr. Pearce then welcomed questions and comments from the Committee members.

Member Hanrahan asked if Mr. Pearce or Ms. Gordon could elaborate on how a bank would have to document the delivery to a certain audience in order to have a firm hook for CRA service credit. Ms. Gordon responded that the bank would probably have to select a school with a majority of students on reduced lunch. This, she said, would be the simplest way. Ms. Gordon stated that another way would be to get other information from the school or a letter from the school indicating the relevant metrics or even to go to neighborhood schools that are in overwhelming low and moderate-income places.

Ms. Gordon also commented that it was often the case that the students who actually performed best as bankers were not always the best students. In this way, she emphasized that giving a wide range of students the opportunity to do something hands-on, tactile, and engaging may benefit less academically-inclined students.

Member Busse complimented Mr. Pearce and Ms. Gordon on the program. Member Busse asked about mobile banking at the schools and whether it helped the Program. Mr. Reynolds responded that several banks in the Program offered mobile accounts and reported that it helped retain students after they graduated from high school. He also stated that they reported students appreciate having some of the options, so it helped them sell and retain accounts.

Member Busse asked for direction on who a bank should contact at a school if the bank wanted to start up a program such as this. Ms. Gordon responded that it would be important for them to talk to somebody they know in the community or school first, noting that the more senior the leadership, the better. She explained that even though one teacher can be a champion on campus for the future program, it is best to start with the principal or even at the superintendent or county-wide basis. Ms. Gordon also directed the bank to utilize the Youth Banking Network cited by Mr. Reynolds.

Member Hartings asked, with reference to a non-custodial account, how a Customer Information Program (“CIP”) is handled. Mr. Reynolds responded that the forthcoming Program report answers this question and he explained that for CIP purposes, the depositor is the

bank's customer—if a bank is offering an account to a minor, the minor is the bank's customer. Mr. Pearce then reminded everyone that one of the other things to note is obviously the age in which you can open a non-custodial account is a matter of state law.

Member Beard asked whether the bank leases space from the school or through some other arrangement. Mr. Reynolds responded that in some cases, a bank would enter into a memorandum of understanding or other form of agreement with the school and essentially lease space in the school for the branch. Mr. Reynolds continued by noting that in some branches the banks used a full-time employee, in others a part time employee, and some branches kept limited hours of operation.

Chairman Gruenberg asked how a bank that might be interested in initiating a project similar to the Program, in addition to referencing the materials online, should proceed in contacting someone at the FDIC (either in Washington or in the regions) for assistance or advice or how to contact another bank that has gone through the process. Ms. Gordon responded the FDIC can facilitate matching banks with schools as well as banks with other experienced banks. She further responded that there have been discussions about having informative seminars where the bankers that have participated in the Program can talk to new groups of bankers. Ms. Gordon invited anyone interested in the Program to send her an e-mail.

Ms. Ryan thanked the panelists for their presentation. Ms. Ryan then turned the meeting over to the Chairman to make closing remarks.

In bringing the meeting to a close, Chairman Gruenberg commented that he found the various panel presentations and discussions to be instructive and informative. The Chairman stated that this being the seventh year of a recovery period, the FDIC will continue to work closely with institutions going forward. The Chairman thanked everyone and then brought the meeting to a close.

There being no further business, the meeting was adjourned at 2:38 p.m.



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

March 28, 2017

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

March 28, 2017 – 9:00 A.M.

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

[Redacted Signature Box]

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

