FEDERAL DEPOSIT INSURANCE CORPORATION

ADVISORY COMMITTEE ON COMMUNITY BANKING

MEETING

THURSDAY,
MARCH 28, 2019

The Advisory Committee convened at 9:06 a.m. in the Federal Deposit Insurance Corporation Board Room, 550 17th Street, N.W., Room 6010, Washington, D.C., Jelena McWilliams, Chairman, presiding.
PRESENT:

JELENA McWILLIAMS, Chairman
MARTIN GRUENBERG, FDIC Board of Directors
DICK BESHEAR, Chairman, President & CEO, First
Security Bank and Trust Company
ASIF DAKRI, Vice-Chairman & CEO, Wallis Bank
FRED DeBIASI, President & CEO, American Savings
Bank
CHRIS DONNELLY, President & CEO, Bank of the
Prairie
JAMES J. EDWARDS, JR., CEO, United Bank
KEITH EPSTEIN, Executive Vice President & CEO,
Roxboro Savings Bank, SSB
DAVID J. HANRAHAN, SR.
DANNY J. KELLY, President & CEO, Hometown Bank of
Alabama
KENNETH KELLY, First Independence Bank
BRUCE KIMBELL, President & CEO, First Community
Bank of the Heartland
THOMAS LEAVITT, President & CEO, Northfield
Savings Bank
LORI MALEY, President & CEO, Bank of Bird-in-Hand
TIFFANY BAER PAINE, President & CEO, Security
Bank USA
ALAN SHETTLESWORTH, President & COO, Main Bank
LOUISE WALKER, President & CEO, First Northern
Bank of Dixon
LEN WILLIAMS, CEO, People's Intermountain Bank
ALSO PRESENT:

LISA ARQUETTE, Associate Director, Division of Risk Management Supervision
RYAN BILLINGSLEY, Corporate Expert, Division of Risk Management Supervision
LUKE BROWN, Associate Director, Division of Depositor and Consumer Protection
CHAD DAVIS, Deputy to the Chairman for External Affairs
DOREEN EBERLEY, Director, Division of Risk Management Supervision
JAMAEL EL-HINDI, Deputy Director, FinCEN
KEITH ERNST, Associate Director, Division of Depositor and Consumer Protection
MARTIN HENNING, Deputy Director, Division of Risk Management Supervision
ERIK KIEFEL, Senior Advisor for Strategy, Policy Division, FinCEN
ALICIA LLORO, Senior Financial Economist, Division of Depositor and Consumer Protection
M. ANTHONY LOWE, FDIC Ombudsman
BRANDON MILHORN, Chief of Staff
RAE-ANN MILLER, Associate Director, Division of Risk Management Supervision
LAURA RICHARDSON, Chief of Trade, Investment, and Fraud Section, Intelligence Division, FinCEN
LISA ROY, Associate Director, Division of Risk Management Supervision
ROBERT STORCH, Chief Accountant, Division of Risk Management Supervision
JAMES WATKINS, Senior Deputy Director, Division of Risk Management Supervision
JEFFREY WEINSTEIN, Senior Financial Economist, Division of Depositor and Consumer Protection
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CHAIRMAN McWILLIAMS: Good morning.
I'd like to welcome members of the committee who are here for their first meeting; Bruce Kimbell, President and CEO First Community Bank of the Heartland, Clinton, Kentucky.

MEMBER KIMBELL: Good morning.

CHAIRMAN McWILLIAMS: Good morning.
Dick Beshear. Did I pronounce that right?

MEMBER BESHEAR: You did just fine.
Thank you.

CHAIRMAN McWILLIAMS: Did I?
MEMBER BESHEAR: Yes.

CHAIRMAN McWILLIAMS: Can you pronounce my name?
(Laughter.)
Chairman, President, and CEO First Security Bank and Trust Company, Oklahoma City, Oklahoma.

Keith Epstein, EVP and CEO of Roxboro
Savings Bank, Roxboro, North Carolina.

MEMBER EPSTEIN: Thank you for having me.

CHAIRMAN McWILLIAMS: Thomas Leavitt, President and CEO of Northfield Savings Bank, Northfield, Vermont.

MEMBER LEAVITT: Good morning.

CHAIRMAN McWILLIAMS: Good morning.

Fred DeBiasi. Did I get it?

MEMBER DeBIASI: Perfect.

CHAIRMAN McWILLIAMS: All right. You should all be named Jelena.

(Laughter.)

CHAIRMAN McWILLIAMS: President and CEO of American Savings Bank in Middletown, Ohio.


MEMBER MALEY: Thank you.

CHAIRMAN McWILLIAMS: We have added these new members in an effort to ensure that we have representation from community bankers across the country from cities as well as rural areas.
On a personal note, having spent a little bit of time in Ohio and having driven to West Virginia and Pennsylvania and rural parts of Maryland quite often back and forth between Ohio and Washington as I was getting confirmed, I really realized we need more representation from the heartland.

So, Bank of Heartland, welcome. We've added these new members in an effort to ensure that we have representation from that part of the country as well.

As in our meeting last October, we want to allow more time for dialogue and input from committee members so my opening remarks are very short.

We have some time on the agenda later this morning to hear from the committee members about your experience with your banks and your communities.

I'll now turn the program over to Chad Davis who will start as the moderator for today's meeting.
MR. DAVIS: Thank you, Chairman.

Our first panel, jumping right into it, we have Jim Watkins, the Senior Deputy Director from the Division of Risk Management Supervision. Jim is going to talk about FDIC efforts regarding de novo institutions.

MR. WATKINS: Thank you and good morning. I will provide an update on our de novo efforts and activity, our deposit insurance application-related initiatives, and the latest feedback we’ve received through two outreach efforts regarding the deposit insurance application process for forming new banks.

First, I would like to update you on de novo activity. While only two institutions opened between the end of 2010 and the end of 2016, activity has recently increased with the FDIC approving deposit insurance for 24 institutions since January 1, 2017. FDIC staff encourages the formation of new banks, and we are currently reviewing nine deposit insurance applications.

On December 6, the FDIC announced
several actions to promote a more transparent, streamlined, and accountable deposit insurance application process. As reflected in your handout, we introduced on our public website applications and supervision performance metrics and other information.

Specific to deposit insurance application, the website includes information regarding application disposition and pending applications.

We also republished our processing timeframe guidelines for applications and announced a voluntary process to receive and review draft deposit insurance proposals. This process is intended to provide the FDIC and organizing groups the opportunity to better understand and work through possible challenges in a collaborative manner before a formal application is filed.

Although the process is open to any organizing group, we believe the process will be particularly helpful for proposals with unusual or
complex aspects and for groups seeking technical assistance. We expect to provide organizers an update within 30 days of receiving a draft proposal, and for most proposals to complete our review within 60 days.

We have established an application mailbox as an additional means by which bankers and others may email questions regarding specific applications or other application processes.

We've updated our handbook for organizers of de novo institutions and our deposit insurance procedures manual. The handbook addresses the information needs of organizers and the procedures manual provides a comprehensive list of instructions for FDIC staff regarding the deposit insurance application process.

Now, in terms of outreach, the FDIC has pursued two important initiatives designed to obtain feedback from industry participants and other interested parties. Beginning in December of 2018 and through the first quarter of this year, round table events have been held to discuss the
deposit insurance application process.

We’ve held events in each of the FDIC's six regional offices and one event here in Washington, D.C. Participants have included bankers, potential organizers, industry associations, and other interested parties. These events are structured around three primary points of interest.

First, we ask participants to provide a report out of questions and concerns about the application process. Second, regarding specialty business models, we encourage discussion of the most significant concerns about the application process. And, third, we ask participants to discuss any other suggestions the FDIC should consider for improving the effectiveness, efficiency, and transparency of the application process, or for addressing any other questions or concerns. In addition, on December 6, the FDIC announced a request for information, or RFI, that posed 13 questions, some of which are particular to specific types of de novo applications and some
of which addressed the overall application process.

In addition to requesting information regarding steps the FDIC can take to improve the deposit insurance application process, the RFI also solicits information regarding any aspect of the application process that discourages potential applicants from initiating or completing the process.

We also solicited ways in which the FDIC could or should modify the application process for traditional community banks. The comment period remains open through the end of this month, March 31st.

Our outreach efforts have resulted so far in 10 comment letters in response to the request for information. Participation in the round table events has been very fruitful. Over 100 participants participated during these discussions. These efforts have generated a substantial number of specific comments and suggestions regarding the application process.
Now let me share some of those comments.

One of the first comments that groups have suggested is that the agencies consider modifying the requirement in which regulators require an applicant to identify a specific physical location at the time an application is filed. One of the underlying reasons is there's a cost.

In other words, they may have to enter into a lease or acquire a building or something of that nature. There is an active cost to that. It may be difficult to enter into a lease arrangement. By requiring that, it impacts the cost of organizing an institution so there is a suggestion that we not have necessarily a specific location but a general description.

The other item that comes up in all of these discussions is something along the topics of a burn rate. In other words, the organizing cost can be rather substantial and significant. There's a desire to lower the organization cost, or the burn rate if you will. There are discussions about possible ways we could sequence
the application process or modify things to lower or reduce the burden or the burn rate in filing an application.

The third topic that seems to come up is ways to better enhance communication or share information at earlier stages and be more responsive in a timely manner. Another topic that seems to come up is more clarification on capital requirements. It seems like the question always comes up, “Does it require 25 or 30 million to open a new bank?”

We always say it's 8 percent capital at the end of the three years and it depends on the business plan, but there is still a desire to be more specific on capital requirements. This always seems to be a question that comes up with all of the items.

Another topic that comes up is a desire to have delegations for approval in handling full handling of deposit insurance applications at the local level or at the regional level. Commenters have stressed that they appreciate and
value the local office.

They feel strongly that the relationship with their case manager is strong. The relationship with the regional office is positive and professional, and they would like it to be handled at the local level as opposed to anything coming up to the Washington office.

There is also a desire to have better information on what is viewed as being substantially complete. Substantially complete is the time frame when the regulators start our clock to review and analyze an application, and they would like some clarity on what is viewed as substantially complete.

Then there's another topic of the change of business plan. What constitutes a change of business plan? We've seen a number of proposals where sometimes when they go out for a stock offering it comes up a little bit less than what the application had. Sometimes it is substantially more than what the application had, and they want to have some flexibility and
understanding of what constitutes a change of business plan.

Then there's this issue, and it's more pronounced in certain areas, for example San Francisco or New York, where the issue of stock options and stock compensation in general, or stock warrants is a driver of a lot of new ventures.

There's a desire that the regulators take a fresh look at our requirements, which frankly is in our statement of policy, on stock options. That can be a source of considerable compensation and an attractive way of bringing in new talent for many new businesses, and they are suggesting that the FDIC take a fresh look at that.

Then there is a strong desire just in looking at our forms and our application forms, if you will, where they are frankly not user friendly and they are not easy to pull off the website necessarily so there is a desire to make them more user friendly and automated.

Then finally a number of individuals suggested that the FDIC should take a fresh look
at its -- our risk tolerance with the suggestion that from time to time we are viewed as being too risk averse. Maybe there is some time for self reflection on that, I suppose.

It hasn't always been my experience that we are too risk averse on opening new banks, but fair enough. We should take a fresh look at that and make sure that we are welcoming of all proposals.

Finally, each and every one of these comments is going to be reviewed here and then we'll develop some recommendations and specific action plans for consideration. We expect the action plans will include additional outreach efforts and communication changes, processes, requirements, and expectations.

In conclusion, we are actively pursuing multiple initiatives, if you will, aimed at improving the deposit insurance application process. Although work is not yet complete, we anticipate that our efforts will continue to make the application process more transparent, more
streamlined, and more accountable.

Thank you for your time this morning.

MR. DAVIS: Any questions, comments?

MEMBER HANRAHAN: Yes, Jim. With regard to capital, could you provide a range of the amounts of approved capital amongst the, I think you said, 24 applications that have been approved since the beginning of 2017?

MR. WATKINS: I would have to go back and look at the record, but I think it's 14 and some have been 100 million. It's a wide range. I will say there's a number that have been around 25 million, but that is not our standard. The difficulty with having -- so even though we've approved 24 or so applications, it's still a small number so don't read into it.

Our expectation is 8 percent after three years, and it depends on the business plan. If a business plan comes in sufficient, maybe you can do it for 6 million. There is no particular capital number, dollar amount. Thank you.

MEMBER HANRAHAN: Thank you.
MEMBER EDWARDS: Jim, I commend you and the FDIC for the work that you're doing here. With our industry continuing to consolidate at approximately 5 percent a year, I think it's really important for our industry to do what we can to try to encourage de novo formation.

My one comment, I'm from Georgia, would be just to echo what you're saying. I've heard some groups that are applying, or considering applying, and working with their attorneys. There is concern that what is substantially complete in their eyes, or maybe their attorney's eyes, is not the same as the FDIC is expecting. I think anything you can do to sort of clarify what is substantially complete, what a substantially complete application looks like, would be helpful.

MR. WATKINS: Let me suggest also if you know anyone interested in organizing a bank, which is maybe a touchy topic for existing bankers, please encourage people to talk to the FDIC. We are very open to having like prefiling meetings, and you can have as many prefiling meetings as you
like. We can help walk through what our
expectations are to help navigate that process so
when an application is filed, it can be handled
expeditiously.

MEMBER MALEY: So Bank of Bird-in-Hand
was one of the two banks you mentioned. That's our
bank. We opened in 2013. Our order said 16 to 20
million and honestly we opened with 17 and three
years later we raised another 12 so you do need a
lot of capital, especially if your business plan
is one that may exceed those expectations so, you
know, you do need the capital buffer.

MR. WATKINS: Well, I happen to favor
capital just so you know.

MEMBER K. KELLY: Good morning. This
is Kenneth Kelly here from Detroit. I would like
to commend you on getting around to the regional
offices. Is there a plan to take that further? I
heard the Chairwoman discuss the heartland and
wanted to know if there's a plan to have meetings
like this in the broader part of the country.

Another part of that question, if you
don't mind, is give me a little bit of a sense of where you're seeing the de novos. Is it happening in one area of the country or is it pretty broad across the country?

MR. WATKINS: Two items. One, my sense is we probably need to digest the information that we received to date and then come up with some action plans and look at ways to either revise some of our application steps and processes, maybe forms, and then reach out to the industry as a whole and trade associations and coordinate future discussions. We haven't quite laid out exactly what our next steps will be, but my sense is that will probably be an appropriate course of action.

In regards to where are the de novos, almost every region -- we have six regions. Almost every region has had de novo activity. We are seeing more interest, I think it's fair to say, in our San Francisco region, our Atlanta region, and our New York region at the moment. But there's interest in other areas as well.

I will say in the Midwest -- so the
Midwest has a considerable number of banks. What we've heard at some of the outreach discussions is organizers and investors instead of maybe forming a new bank look at opportunities to acquire an existing bank and maybe reposition it, restructure it, reformat it in some way. They look at the premium and the investment level that can arise from that and see if it is such.

There's a lot of institutions in the Midwest that perhaps may be family owned and at some point have had some interest in selling. That may explain some of the transactions where banks are acquired by other parties instead of forming a new institution. It's a picture of items that go on.

MEMBER K. KELLY: Thank you.

CHAIRMAN McWILLIAMS: Ken, if I can just add -- I'm sorry -- for a second. We are also considering the idea of perhaps having something similar to this on a smaller scale in our regional offices so having like the sub-councils or sub-committees that would be regional and advising regional directors as well. That's in the works.
I mean, there are some federal law issues that we have to navigate to make sure we can get there.

MEMBER K. KELLY: I understand.

CHAIRMAN McWILLIAMS: It's an effort we are undertaking.

MEMBER K. KELLY: Great. Thank you.

MEMBER SHETTLESWORTH: Just one quick question, James, if I can. Alan Shettlesworth, Main Bank in Albuquerque, New Mexico. We actually had someone come to our bank and talk to us because our bank is about 13 years old so we are the newest, youngest bank organization in New Mexico. Someone came and talked to us November/December time frame. First time this has ever happened about getting our advice on how to start a new bank, specifically on one of the many tribes we have there in partnership with a lot of the Indian reservations or tribes.

My question is would it be good to send them to you to kind of put you in contact with them or who?

MR. WATKINS: They are certainly
welcome to come to us, but each regional office. You can go directly to the regional director at each regional office. Each regional office has an application specialist exclusively for de novo institutions. Some offices actually have a committee as well that looks at de novos. Each regional office has specialists that can help explain the application process.

CHAIRMAN McWILLIAMS: Did you have something?

MEMBER EPSTEIN: I was just going to add that we certainly appreciate these efforts. We, and I'm sure I speak for many of my colleagues, have benefitted short term from consolidation and that we have something sort of different to offer our market and some of our neighboring counties that no longer have a community bank have found their way to our bank and we are grateful for that.

We also see that long term the lack of community banks is going to affect all of us in some negative ways. We've had training sessions cancelled due to lack of participation. Resources
available at the state level for the bankers association are fewer when there are fewer member banks and so forth.

With that said, I would encourage you, and I'm sure you have already to a certain extent, but to engage the state banking associations. They certainly have a vested interest in seeing de novo activity and may be able to help you sort of get the message out that the FDIC is open for business in terms of new applications.

I think that there is a misperception in the marketplace. I have had others tell me that where are we going to get $25 million from investors in a small community. It seems that many of the de novos that are in the formation process are in more metropolitan areas.

I think the Chairman had made some comments, and I can't remember the exact numbers, but there are a number of counties that don't have a bank at all. It's unlikely that one of the bigger regional or national banks is going to enter those markets. There's probably just not the critical
mass there that they're looking for. But perhaps
for their own self-interest there would be
investors in those communities that would like to
form a community bank.

I know you're not in the business of
soliciting investment and formation of banks, but
whatever can be done in concert with the state
banking associations to sort of get the word out
that there's not this huge mountain of capital that
needs to be amassed in order to launch a bank I think
that would be helpful.

MR. WATKINS: Thank you for the
suggestion.

MEMBER WILLIAMS: James, just a quick
question. Len Williams from Utah where we've got
a preponderance of ILCs and fintech-type bank
charters. I know there are several applications
in the works now. Are you seeing anything
different than you have historically on the
percentage of traditional community banks that are
requesting charters versus more specialty ILC-type
organizations?
MR. WATKINS: So before us now we only have nine proposed de novo institutions that we're looking at. While we can't speak to specific pending applications, we are open to all applications. To the extent that they may have business activity that is not traditional, we'll still consider that and review it in relation to the statutory factors. They would be expected to satisfy the statutory factors. That's really our basis for analysis. We're open to all forms and all charters. We encourage discussions on that. I think the draft application process can be useful for those groups as well.

MEMBER WILLIAMS: I appreciate that you're open to all kinds. Of the nine that have started, have they been predominately traditional or specialty?

CHAIRMAN McWILLIAMS: This is where I crumple the paper, you know. (Laughter.)

MR. WATKINS: Frankly, each business
plan can be different. The banks that have already been opened some of them are kind of business focuses and some of them are traditional focus. Some may have avenues where they are looking at funding not only from traditional deposit sources, but also internet sources so it's a variety and so we're open to all.

MEMBER WILLIAMS: Thank you.

MR. DAVIS: Okay. All right. Moving to the next topic. Thank you, Jim.

Next up we have Lisa Roy, Associate Director from the Division of Risk Management Supervision. Lisa is going to address the FDIC's community bank technical assistance efforts. She's also going to talk about a related request for information that we are going to -- or we hope to issue next month.

MS. ROY: Thanks, Chad.

Good morning, everyone. As Chad indicated, we hope to issue a request for information next month relating to our technical assistance efforts for banks. The purpose of the
RFI is really to seek public input on how to ensure our technical assistance offerings are effective and valuable.

We wanted to talk with you this morning to seek your feedback and suggestions on the draft request for information. We are going to walk through the areas in which we provide technical assistance, how we provide technical assistance, and some of the draft questions in the request for information.

If you look on slide 3, it highlights seven areas in which we provide technical assistance. I'm going to start with the first area of technical assistance videos. We started issuing technical assistance videos in 2013, and we have videos that are targeted specifically for bank directors and we have other videos that are targeted for bank officers and staff.

One of the questions in the RFI that we want to seek feedback on is how institutions have used the videos and if institutions can identify for us which videos are most helpful for directors.
and which are most helpful for officers and staff.

In December of last year, we issued an updated video on the Bank Secrecy Act and we issued that video using a new format. The new format is a voice-over format, and we moved to this format in an effort to reduce cost of producing the videos, but also to amend the videos more quickly.

So we also want to seek feedback on the new video format -- do people like it or do they not like it? The prior format had people on screen as well as words on a slide in essence. We want to seek feedback on whether people think the voice-over format is effective. Then the last question we want to seek feedback on is, “Are there additional videos that we should consider issuing, are there videos that we should consider pulling down?

I want to move from there to our Directors’ Resource Center. Currently our Directors’ Resource Center on the FDIC.gov website is organized by product type. We have videos in one location and we have guidance in another
location. We have rules and regs in a different location.

So one of the initiatives -- slides 5 and 6 highlight for you where we want to head in this area. We think it would be more helpful for the industry to head to a topic-based resource center. The pages you see in front of you are pages that are not in production yet so you can't find them on the .gov website yet. We hope to issue them in the next two to three weeks.

This is a page in development. We started with the Bank Secrecy Act. This is essentially the format we want to move to. The left side of the screen would essentially highlight what the law is, what our regulations are, what the guidance is relating to this particular topic.

On the right side would be other information. In this case, it's the FFIEC examination manual. It's the video that we have outstanding. Then it's other information -- links to FinCEN, OFAC. So we want to seek feedback. We hope to issue this topic-based resource page on the
Bank Secrecy Act prior to or around the same time that we issue the request for information.

Using that resource page as an example, we would like to seek feedback from the industry on the format of this topic-based resource center -- What suggestions do people have to improve it? Are there additional things that we should consider adding to these particular pages? And what additional topics should we consider developing resource pages for?

I'll move ahead to our director or banker colleges. I'm sure many of you have attended banker or director colleges. These are offered in each of our regions. They are offered on a varying schedule. Each regional office determines the subject matter for that particular one-day event based on questions that they've received and what they think the bankers want to hear about.

One of the questions we are asking is -- Have you attended one of these events in the last two years? Are these one-day seminars helpful?
Is the length sufficient to meet your needs? And are there topics you would like to see addressed in banker or director colleges?

We also want to ask about our webinars and teleconferences. So we often host differing webinars or teleconferences on different topics. We want to ask -- are they useful and how could we make them more useful and are there particular topics you would like to see webinars or teleconferences on?

We want to seek feedback also on how we announce the webinars and teleconferences. So do you feel you have sufficient time -- notice about these to adequately plan to participate?

We also want to ask about the materials that we provide for teleconferences or webinars and how we can increase the effectiveness of those materials. Can you find them after the fact on our website? Typically it's slides that are available. Is there other information you would like to see related to those teleconferences or webinars?
The next area we have is our Community Bank Resource Kit. This Kit was originally created in April 2016 at the time we had the community banking conference. It was a nice take-away for the conference. We also sent one to each state non-member bank, and we had a supply of them available for the banker or director colleges. So people could attend the one-day events and have a take-away.

We want to seek some feedback. The product is about three years old so we want some feedback on the kits. How have they been useful? How could we make them more useful to board members and staff? What materials or information would you like to see in the resource kit? And how would you prefer the kit to be delivered -- electronic, hardcopy, or both? The April 2016 version was available only in hardcopy so that's why we want to ask if people would like to see it also available electronically.

The next two slides essentially highlight regional compliance newsletters. We
give a picture of what one would look like. Each of the FDIC's six regions produces a quarterly compliance newsletter, and they are sent by email to all state non-member banks in the region. It provides information on FDIC initiatives, updates to guidance, common exam findings, and other topics.

In the draft RFI, we want to get some feedback on the compliance newsletters. Are they helpful for institutions? Is the delivery mechanism by email effective -- why or why not? Is there additional information you would like to see included in these regional newsletters, and what is your preference -- longer, more in-depth articles, or shorter articles that provide quick updates?

The next two slides highlight our Supervisory Insights Journal. That is issued semi-annually. We just want some feedback on the Insights publications. We publish articles of interest to bankers and examiners in the industry, and we're asking whether people find the
information in the Insights articles helpful and why or why not, and are there any topics that you would like to see covered in upcoming Insights publications?

Then, finally, we kind of wrap up the draft RFI by asking some general questions. We find it would be helpful if people could rank our technical assistance offerings in terms of utilities. So what do bankers find more useful; is it videos, is it webinars, or teleconferences? Is that ranking different for board members versus officers and staff?

Finally, one of our other questions is what other methods should we consider to provide technical assistance.

Before I open it up to questions, I just want to touch on the timeline for the RFI. We hope to issue the RFI next month. It would be issued for a 60-day comment period so that roughly takes us through the early summer. Then we do the analysis in the summer and come up with next steps in early fall.
With that, I would be happy to take any questions or suggestions for the request for information.

MEMBER SHETTLESWORTH: Lisa, in our bank, we use the videos for our directors’ training and it's working out really well for us. Most of the videos are exactly where they need to be. Some are a little bit lengthy, which is understandable given the regulations.

Just understand if we're using it for directors’ training in there, the attention spans aren't necessarily the longest for this stuff so I think it addresses the issues. My request would be just to focus on keeping it as short and concise as is practical.

Then when it comes to the notifications and the supervisory insights, one of the number one things I'm looking for in these publications is trying to identify regulatory hot buttons; what's trending in our region or in the area. That's a big thing for us every time those things come out.

MS. ROY: Great. Thank you.
Hi, Tom.

MEMBER LEAVITT:  Tom Leavitt, Northfield Savings Bank in Central Vermont. I just want to compliment the regional team, the northeast region, Assistant Director Marianne Hatheway; Bill Hardy, supervisory examiner out of the Springfield office in Massachusetts. They personally come to our directors’ colleges each year in Montpelier, our state capital.

They put on a robust program bringing in other members of the regional team. Our directors attend. They take it seriously. There’s a lot of feedback in the boardroom, particularly the first two board meetings after that directors’ college about areas of risk and supervision that you’re highlighting in the directors’ colleges.

I would say, at least in our case, more of the same to bring that level of resource to a small state suggests that the door is open and our folks willingly take on that opportunity.

MS. ROY: Thank you.

MEMBER PAINE: Tiffany Paine, Security
Bank, Bemidji, Minnesota. A couple of things. We also utilize the directors’ resources and they are great. I think they would shorten a little maybe if it wasn't the actors and the slides, although the actors were fabulous.

(Laughter.)

MEMBER Paine: Let's not discount their skills. But I do -- I looked at the new format for the BSA, and I thought that was effective. A lot of times people have different things going on so they will play it a few times and multi-task. Not that I'm suggesting that's the way we ask them to do it, but it's the way reality comes out.

The one thing I would say is if you go in the search area on the FDIC website, just a suggestion the way I found it was I searched for video, not training, not education. Make sure that your search aligns with what people are going to be looking for. If they are looking for education, it's a FIL that comes up on something else. I would suggest that.
As far as the articles, you're looking for longer, shorter.Personally, if they are coming to me, I want shorter so I can identify the appropriate individual that needs to look at them, source it to them, and then they would do the additional research. I want to make sure that they are getting to the right people.

If it's too long, what I'm afraid if it's coming to me, I'm going to look at that first paragraph or that first sentence or whatever is going to grab me and I'm going to push it along anyway. It's a lot of time that you're spending on some detail that maybe wouldn't be as useful to me.

Hot topics for future, what we're seeing out there is Reg. O, a new conversation that's coming back. I mean, it's always there but it's hot right now, or whatever is going on. Then additional regulation videos if we are going to utilize them more as a resource for our compliance officers and our auditors and the staff in those areas that it applies to. Maybe just a little more
regulatory detailed videos.

MS. ROY: Thank you.

MEMBER EDWARDS: Lisa, Jim Edwards, United Bank in Central Georgia. So overall I think there is -- when I received this I went out and worked with my compliance office to kind of refamiliarize myself with everything that is on the website. There's a tremendous amount of resources out there so I think that's great.

You could probably make the same comment about when you look at our website, our bank website, but it can be hard to navigate to what you want. So, as much as possible, I think if you can clarify how to get to various items and try to keep them two or three clicks away without having to go really deep down to find something, that's helpful. It sounds like you're already doing that.

MS. ROY: I think that was really the rationale behind getting to the topic-based resource page. It's one-stop-shopping so you can get there quickly, and you can find what you want related to that topic.
MEMBER EDWARDS: Hot topics. My head compliance officer reiterated that anything you can do, that examiners can do, that will elevate items that are being found that are giving the FDIC concern is very helpful to him because he can then go back and get that elevated with our board and with our employees and make sure that we're working on that before our next exam.

The regional compliance newsletters are very helpful. That is used throughout our organization. When I asked why do we feel that way, the response I got was they are using real-world examples. That is so helpful.

We're not just talking about a reg, but we're talking about here is what we are seeing happening, without naming names, of a local bank and here is what should be done to correct that issue so that's some comments.

MS. ROY: Thank you.

MEMBER EDWARDS: I've got more comments and I'll give those to you later.

MS. ROY: Great. Thank you.
CHAIRMAN McWILLIAMS: Thank you for being so kind about our website, it's not nearly as good as you all claim it to be, so we are actually working on revamping the website and making it more user friendly and making it easier to find things in general. Not just for the outside, but for our examiners since they are learning and on the internal side in terms of their access to documents and resources. We have some work to do, and that work is being done.

MEMBER EDWARDS: Thank you.

CHAIRMAN McWILLIAMS: Thank you.

MEMBER DONNELLY: Lisa, I have just one comment. Chris Donnelly, Bank of the Prairie, Olathe, Kansas. I reiterate what everybody else said but you've got a ranking question in here. I don't know that I would say rank them. As Tiffany does, I source these out to different individuals and the more details or specific information as quick as you can get it so they can take and utilize within that, or go search farther into the website and find things. I think if you start trying to
put weight into it, maybe directors get more value than staff, individual staff who may miss some points. I think they are all equally important, just to who the receiver is.

MS. ROY: Thank you.

MR. DAVIS: All right. I have to move us along. Thank you Lisa, thank you Jim.

Our next topic is one of the more frequent topics that we hear discussion on, not only at these meetings, but when the Chairman and I do state visits it's one that comes up the most. That is the Bank Secrecy Act and required bank filings such as currency transaction reports and suspicious activity reports.

We thought it might be helpful to hear from FinCEN this morning about how these filings are used. We are pleased to have a panel from FinCEN -- Deputy Director Jamal El-Hindi, Senior Adviser for Strategy Erik Kiefel, and Chief of Trade, Investment, and Fraud Section Laura Richardson.

Mr. EL-HINDI: Thank you, Chairman,
and Committee for inviting us to be part of your discussions again today. I was last here in 2015 and we very much appreciate the opportunity to speak with you directly.

Community banks for us are very important in terms of what they do, but they are also some of the more difficult institutions for us to connect with directly. This is an excellent opportunity for us.

I know that we're tight on time so I'm going to keep my remarks brief. I'm going to talk a little bit about the overall value of BSA information before I turn it over to my colleagues who will give you some specific presentations.

Please know that FinCEN and our law enforcement partners are able to do very important things with the BSA information provided by financial institutions like yours. The data plays a critical role in keeping our country strong, our financial system secure, and our families safe from harm.

We know your institutions put a lot of
resources into complying with the BSA requirements and, understandably, you want to know what happens with the information you are sending and how it is being used.

When financial institutions like yours report suspicions about elder fraud, human trafficking, cyber crime, narcotics trafficking, terrorism, and other illicit activity, they provide incredibly valuable leads and ongoing support for law enforcement investigations. Importantly, they make it harder for criminals to move and hide illicit proceeds in the financial system.

BSA data also aids ongoing investigations tied to bulk cash smuggling, gang activity, significant fraud, transnational organized crime, bribery, healthcare fraud, corruption, embezzlement, kleptocracy, and third-party money laundering among other crimes.

It doesn't go into a black hole. FinCEN has nearly 500 federal, state, and local law enforcement and regulatory agencies with direct
access to the FinCEN database of BSA records. Within these agencies, there are an estimated 11,000 active users of BSA data.

These users include 149 SAR review teams and financial crimes task forces located all around the country covering all 94 federal judicial districts, including one in each state, and the District of Columbia, and Puerto Rico.

The direct access comes through a system that we call FinCEN Query. In the last five years, FinCEN Query users have made more than 10 million queries of the FinCEN database.

BSA data is also vital for unmasking and investigating criminal tax evasion and other crimes. The Internal Revenue Service Criminal Investigation Section alone conducts more than 126,000 BSA data queries each year and 24 percent of its investigations begin with a BSA source.

Financial intelligence is a key tool for FBI criminal investigations. All FBI subject names are run against the BSA database. More than 21 percent of FBI investigations use BSA data and
for some types of crime, like organized crime, nearly 60 percent of the investigations use BSA data. Roughly 20 percent of FBI international terrorism cases utilize BSA data.

On a daily basis, FinCEN takes the SARs that you file, and we run them through more than 100 automated business rules to identify reports that merit further review by our analysts. Our terrorist financing-related business rules alone generate over 1,000 matches each month for review and further dissemination to our law enforcement and regulatory partners in what we call a flash report.

These flash reports enable the FBI, for example, to identify, track, and disrupt the activities of potential terrorist actors. It is incredibly valuable information. We push them out as flash reports because they have direct access to the data, but this is one way in which we can highlight certain parts of the data and bring it straight to their attention.

Over the past few years, two of the
financial institutions in this room today have
directly contributed to the development and
dissemination of flash reports related to ISIS and
other terrorist groups.

I'm not at liberty to provide more
specific information due to the nature of the
investigations, but this underscores the fact that
the reporting of banks in this room and banks all
over the country, large and small, that reporting
is critical. I would like to quickly touch upon
two important information-sharing programs that we
have at FinCEN -- our 314(a) and 314(b) programs.

With 314(a), which is about sharing
information between industry and government,
government and industry, on a roughly
every-two-week basis, FinCEN reaches out to
approximately 40,000 points of contact within the
financial community to see if they have financial
data that could be used to support a significant
and specific money laundering or terrorist
financing investigation.

In order for us to make these requests
on behalf of law enforcement, they have to certify that the matter is of a high-level of significance and that they have exhausted all other means of investigation. In other words, when we send these requests out to support specific investigations, we do not send them out lightly.

When financial institutions receive requests, they check to let us know if they have any positive connection to an account or transaction matches. We then let law enforcement know so that they can follow up through appropriate legal channels with the financial institution.

Of the 17 financial institutions here today, seven of you have had at least one positive response to a FinCEN 314(a) request. That's nearly half of you. Again, these are significant money laundering and terrorism financing cases.

The feedback we receive from law enforcement speaks for itself. On average, law enforcement tells us that they identified 10 new accounts and 47 new transactions per 314(a) request. Based on the total feedback, 95 percent
of our 314(a) requests have contributed to arrests
and indictments. I just want to thank you for the
role that you're playing in that effort.

314(a), again, is about information
sharing between government and industry. 314(b)
is about information sharing between and among
financial institutions themselves. After
registering with FinCEN, this program provides
safe harbor for institutions to exchange
information concerning individuals, entities,
organizations, or countries with respect to
possible terrorism or money laundering activities.

FinCEN has approximately 6,000
financial institutions currently participating in
the program, five of which are in this room today
so thank you for being part of this program. For
those of you who are not yet participants, I
encourage you to consider registering to
participate in the program. If there are reasons
why you're hesitant to register, I hope you feel
comfortable raising that with me here or
separately.
More and more we are recognizing how appropriate information sharing between and among financial institutions helps strengthen our collective ability to identify illicit actors, while at the same time recognizing the need to balance financial privacy rights.

314(b) can be particularly useful in helping financial institutions obtain a better understanding of their customers' sources of funds. And a focus on sources of funds is critical to your SAR filing obligations.

Our review of SAR reporting indicates that more and more financial institutions are taking advantage of 314(b) for this purpose which is encouraging. We have a fact sheet on our website that talks about all of the advantages that 314(b) provides and also talks about some of the mechanics of it as well.

If you have questions about the 314(b) program or anything else, our regulatory help line is just a call away. In total, banks in this room have made more than 64 inquiries into our
regulatory help line since May 26 so we appreciate your engaging with us.

On a yearly basis, that call center receives thousands of calls. I think it's close to tens of thousands at this point.

Overall, we get good feedback on our responsiveness, but use this as an opportunity to let us know of ways in which we can improve.

On that note, I would just like to conclude by saying we feel that we have built a pretty strong system with our financial institutions, but that doesn't mean that we can't make it better. FinCEN is always reviewing our rules, our engagements with you to figure out if there are better and more efficient ways to do that. We are currently in the process of working with our federal counterparts right now to undertake another review of that.

I'm now going to turn it over to Erik Kiefel and Laura Richardson to talk in greater particulars. Erik is going to talk about a particular project that we have going on right now.
to make sure that we better assess the actual value of BSA data, and we are doing that because sometimes you have to make difficult choices in terms of everything is valuable, but sometimes some information is more valuable than others.

Part of what we're trying to do right now is to help financial institutions focus on the most valuable ways in which they can contribute to our efforts. Laura Richardson from our Intelligence Division is going to talk about specific reporting in the case of elder care fraud as an example.

Before I turn it over to them, I also want to take the opportunity to introduce Daniel Campos from our Intelligence Division. He's shadowing us today as part of a leadership development program. We're proud of the way that we try to work to develop and keep the talented staff that we have. Laura was part of that leadership potential program in the past. Both Dan and Erik were presidential management fellows at different points. At some point, Dan, you might
be up here.

CHAIRMAN McWILLIAMS: I think that was a threat, so good luck.

(Laughter.)

MR. EL-HINDI: I'll turn it over to Erik.

MR. KIEFEL: Thank you very much. What I wanted to talk to you all about a little bit is the project that Jamal mentioned where we're looking at in really a thorough way trying to map out and catalogue as best we possibly can the full value of BSA reporting.

This is a rather unique project, and one that involves interacting with all the stakeholders from the community banks to the largest financial institutions, to the money services businesses, to our stakeholders like the FDIC that we partner with on a daily basis at the federal level, as well as with law enforcement and others at the federal, state, and local level.

The purpose of this project, which we just began at the beginning of this year, at the
end of January, is to understand how extensive and how crucial that BSA value from your reporting is. Jamal already highlighted a number of aspects of it.

What we hope to get out of this approach and this project is to be able to map out and catalogue across that array of stakeholders, across that array of activities, be they related to national security such as the ones Jamal mentioned, or ones that have very personal financial criminal impact on individuals that are your customers, which Laura will be talking to.

And understanding exactly where in that value chain, and that's how we're sort of thinking about it, is this value chain that comes from the institutions through FinCEN, through law enforcement, with the regulators, where that value is, how it can be -- how it is being maximized now, how it can be more effectively used going forward.

One of the things that we found out, and it's early, through this process is that the value is much more than does a single SAR, does a single
CTR, lead to or facilitate a particular investigation. The BSA reporting value is much greater than that. Laura's examples will highlight that aggregation, that capability of bringing everything together that we at FinCEN are able to do along with our other stakeholders.

As part of this effort, we are trying to develop a clear understanding of that value chain, all the different elements of it, all the different participants of it, and how they contribute to it.

And, just as importantly, to Jamal's point on the regulatory review efforts, if you will, what happens when any part of that chain is interrupted, or diminished in some way, so that we can understand if we pull this string, what will happen, how will that value overall be changed, and is that going to be a positive thing or a negative thing for its overall use.

Also, we are beginning to understand in that more detailed way what the characteristics of that value are, trying to define those for the
different purposes and stakeholders and users throughout. Not only at the end, but throughout that value chain itself.

What I can say right now is it's very clear that all stakeholders benefit from and create that additional value along that chain in some fashion. We just want to be able to actually show it to you and clearly identify it for you.

This value also isn't just a pass-through. It isn't just your reporting going through down to law enforcement and its use there. All along the line, there are different force multipliers. They are adding value and not just in a linear fashion, but in an exponential fashion, to the underlying reporting that your institutions and other institutions are putting together.

The sort of final thing I would like to highlight on this is that as we're going through this project, we will be reaching out and interacting with all those stakeholders in some fashion.

We want to understand everyone's
perspectives on the value of that reporting that either is being developed within the institution or used by someone else along the chain, so we'll be going through this process over the next year to come with those key findings and ways of thinking about and viewing BSA value as we get closer to the end of the year. That is something to look forward to as we go through the year.

My colleague --

MR. EL-HINDI: Before you introduce -- I'm just going to provide one anecdote with respect to this study and the scoping of it and some of the difficulties that we have.

When we talk about the value of the information that we have, there are so many ways in which you can assess it, and one conundrum that we had, and we actually talked to the people who are trying to -- as part of government contracting you have to have certain sessions where you talk about your needs.

We're trying to say how do we assess the value of something that may be reported now and we
don't see any value in it right now, but 10 years from now it could be a crucial piece of an investigation. As Erik said, it's not just about things leading to a particular investigation or particular tip.

We are finding all the complexities that are associated with how you value this vast array of information coming from a vast array of filers being used from a municipal law enforcement agency all the way up to the FBI. It's actually -- I'm very excited about the project and looking forward to the results we get.

MR. KIEFEL: So Laura is going to walk you through one of those examples that we've been talking about. This is an example that highlights that totality of the aggregation of the reporting being used in a value-added way. Quite frankly, in helping protect some of the most vulnerable of your customers.

Laura.

MS. RICHARDSON: Thank you, Erik, and thank you everybody for listening to me today.
So, as Erik pointed out I am going to be talking about how SARs are used in aggregate on elder financial exploitation and in aggregate means every SAR that any of you has ever filed on elder financial exploitation has been or will be looked at in this way.

We've shared some of this information already with your compliance people in a webinar that we did last year.

We've shared some of this information in reports that the FinCEN Intel Division has done for the law enforcement and regulatory customers in the last year.

I'm going to be referring to slides that are in your packet if you want to look at those. And it's really talking about how government as a whole has been using the SARs in aggregate but also specifically to protect elders and catch criminals.

And my main collaborators in this area have been the Department of Justice and the Consumer Financial Protection Bureau. And really
speaking for them, I can't tell you how useful they
tell me the SARs are to their investigations and
their protection of elders.

But as Jamal pointed out, this is just
one use case for SARs. We're talking about elder
financial exploitation because it's a large topic
and it's an important topic that touches all of us.

But this governmental usage applies to
any topic in the BSA that Jamal mentioned. So back
to my slides.

So we have a checkbox on the SAR for
elder financial exploitation. We've done a couple
of advisories advising the financial community to
use that checkbox when they file a SAR on elder
financial exploitation and thank you very much.
It looks like that has been working because we are
getting large numbers of those SARs.

So I'm flipping to my next slide which
is the statistical portion of the presentation.
And the headline, so the headline is there's been
a big increase in reporting of elder financial
exploitation in the SARs.
So this chart is basically counting up every SAR that was filed between 2012 and 2017. And you'll see the number of filings overall increased dramatically. Now we're getting about 6,000 SARs a month on elder financial exploitation alone.

And then there's some color coding on that chart. It's breaking it down by industry. So the lower bars on the chart, those are the orange color, that's your industry. That's depository institutions as a whole.

And historically you guys have accounted for the majority of the elder financial exploitation SAR reporting, and your numbers are growing and that gray component of the bar is money services businesses which used to not file but now they file significant numbers of SARs as well.

So then we get the question well, why is that number growing? Is it because more elders are being exploited, or is it an awareness thing because there's been state regulations and advisories and other publicity around elder
financial exploitation?

And we can't really answer. It's a chicken/egg question. It's probably some of both.

But the point, since the numbers are growing, it's good that we're doing something with those as a government.

So flipping to my next slide, it's like well, what are the SARs are saying, exactly? And the bottom line in this chart is that the SARs are talking when you read the narratives and ask what's really going on about a mix of activity, primarily theft and scams.

And how FinCEN analysts reach this conclusion is a little behind the scenes look at our methodology. So we will read a statistically representative sample of the hundreds of thousands of SARs, and we start seeing themes in the narratives. Then we start tallying up how often, how many SARs fit this theme versus that theme.

So, in this case, we saw theft from elders was really the biggest theme in 38 percent of the SAR narratives, but it was followed closely
by scams against elders. That was 36 percent of
the narratives.

And then, another important point is, in 17 percent of those SARs that the analysts
reviewed, they actually couldn't understand the
storyline well enough to assign it to any of those
categories. So perhaps the SAR narrative wasn't
very detailed, or it was vague.

And in those cases, of course, we
appreciate more specificity and more detail in
terms of understanding the story behind the SAR.

And in the interest of time you can read
the other numbers. I'm going to flip to the next
chart which to me is the most heartbreaking point
in this presentation.

It's focusing on the SARs reporting
theft from elders. And it's looking at the
relationship between the elder victim and the
perpetrator of the theft.

And the numbers tell us that in almost
half of the SARs the perpetrator of the theft
against the elder was a family member of the elder.
And then, in another almost 20 percent, it was a non-family caregiver. So, you put that together and it's like wow, two-thirds of the theft against elders is by someone who knows the elder and the elder probably trusts. So, sad point again.

Next slide is looking at the scam-related SARs. And the statistics here are using tens of thousands of SARs reporting scams and looking at the subject address information that you provide us in the SARs.

Because we know that many elder scams originate outside the U.S., we were really interested in this particular analysis because it helped give us an idea of where the money is going.

Usually the money is going back to the country where the scam originated. Nigeria is at the top of the list here. You could call Nigeria actually the birthplace of email scams. We think that that is why we get so many elder SARs flagging Nigeria.

Jamaica is also high on the list which
we know from working with law enforcement is the birthplace of many of those lottery-type scams.

And then, India is high on the list which we know from Department of Justice is because so many of those technology-driven scams originate in India.

So next slide. So now we're moving on to --

MEMBER K. KELLY: Question, Laura.

MS. RICHARDSON: Oh, sure.

MEMBER K. KELLY: Just to be clear, is there not any of the scamming taking place in the U.S. or it's just not on the chart?

MS. RICHARDSON: It's just not on the chart. Really the bulk, the Bank Secrecy Act data as a whole is USA-centric. So typically for any given data set like 90 some percent of subjects will be U.S.

But we were looking at the foreign here leaving out U.S. more because -- the scams tend to be more foreign originated, but not exclusively.

MR. EL-HINDI: And I think that that
slide was about how international scams break down in terms of the comparison of the different countries.

MS. RICHARDSON: Right.

MEMBER K. KELLY: Thank you.

MS. RICHARDSON: Sure. So, we're done with the analysis of the elder SARs, and now we're more on to stacks in terms of the FinCEN data system, the filers and the users of the data.

And I like this chart. It touches on a couple of points that Jamal already stated, but here you have numbers and you have a visual.

And the numbers are we have actually 154,000 financial institutions, including all of you, reporting data e-filed into the BSA system.

And then a number on here Jamal already gave you. We have 11,000 federal, state and local law enforcement users that are authorized to pull out of our FinCEN query system. And they're doing 27,000 queries a day in that system.

And they do include examiners, regulators, SAR review teams, national security
customers. They also include the FinCEN Intelligence Division. And we alone are producing hundreds of intel reports a year that go out to the law enforcement and the regulatory and the national security customers.

So the data that you contribute goes into a system that is extremely valuable for a large audience of government users. And I'm not exaggerating when I say that I hear all the time that the law enforcement users get information out of the BSA system that is unique in their investigations or it's information that they would not have been able to obtain otherwise were it not for the BSA system. So really thank you for everything that you contribute into the system.

So, my last slide is describing very recent actions of two of the biggest federal government users of the elder financial exploitation SARs in particular.

And those are the Department of Justice's Consumer Protection Branch and the Consumer Financial Protection Bureau.
If you Google this, by the way, you would find tons of media reporting on the things that they've done recently.

The CFPB released a public report on February 27 on their website where they analyzed over five years' worth of the elder financial SARs. It's been a subject of a number of national news stories and we actually have one of the CFPB authors here in the room, Hector Ortiz. Hector has copies of the report that he will be happy to share with you or you can go to cfpb.gov.

Then on March 7 the Department of Justice announced what they call a sweep where they roll up -- this was over 200 cases and several billion dollars' worth of attempted crime against elders.

The focus there was on tech support scams originating in India, but they also publicized a story that you might have seen in the national news. It was actually the former CIA and FBI Director William Webster was an attempted victim of one of these Jamaican lottery scams, he
and his wife. So they have been in the press.

They actually cooperated with the FBI on the investigations, wore a wire, and they're helpful in sort of personalizing the story of anybody can be a victim of the elder scammers. It's obviously useful when it's someone who can work with law enforcement and wear a wire. Good publicity.

And then, at this event, the attorney general stated that elder protection continues to be a top priority of DOJ. I know DOJ uses SARs as one of basically their top two sources of leads on all of these consumer protection investigations, and they are literally looking at every SAR filed every month and triaging it to send leads out to the different U.S. attorney's offices for elder justice cases.

So, I hope that this has given you some insight into how FinCEN and its government partners are using your SARs on elders.

But I again emphasize this is not just exclusive to elders. We do this with all the types
of SARs.

And my last point is speaking for the governmental users of the SARs again. They are all extremely grateful for the efforts that all of your compliance departments put into giving us SARs so we thank you very much.

MR. EL-HINDI: And I'm just going to add one thing. And what I love about the CFPB report is that it shows how agencies other than FinCEN are developing the capability to analyze this data in aggregate.

And some of that comes from the fact that not represented here is our liaison division which plays a big role in training our stakeholders in terms of the value of financial intelligence generally and how to use the BSA data specifically.

So we run a series of courses throughout the year that are always over-subscribed by our law enforcement colleagues. And we're getting more and more of them to understand not just the value of the information generally, but how to use it specifically.
And when we see efforts like those of our interagency partners that's the type of thing where we talk about value added or the exponential value added of the BSA that I think that we're going to learn more about through this study.

So with that I hope that there are some time for some questions.

MEMBER HANRAHAN: A couple of questions. Laura, your stats were great. Thank you. Very interesting, very informative.

Your slide 6 shows the very sad stats about family relationships to victims. Am I correct in assuming that where it's a family-related theft that that would fall to local law enforcement for further investigation and prosecution?

And if so, how receptive do you find local law enforcement to be to take that case on?

MS. RICHARDSON: Okay. I love that question. On a couple of our webinars we talked about how this applies to the financial personnel too at a local level.
The financial personnel at a local level are the ones that are best positioned to contact local law enforcement, also to contact the local adult protective services. Obviously without saying we're filing a SAR on this. Just heads up, look at this elder because the CFPB is out promoting this concept too as is DOJ.

You could prevent a lot of the theft if you can stop it at the local level. And adult protective services and local law enforcement are usually best positioned to try to stop it. Is that answering your question?

MEMBER HANRAHAN: It's helpful, yes. In general how receptive do you find local law enforcement to be to take interest in those cases?

MS. RICHARDSON: I can talk generally and not specifically. But generally this ties into what Jamal said too about the training.

So when we do training for law enforcement on how to use this FinCEN query system we have been providing specific training, a lot of it for the local law enforcement customers on how
you find the elder SARs in your jurisdiction in this query system because those are the ones you're responsible for.

And my sense, but this is kind of third hand is they're pretty receptive to finding that. They're pretty receptive to finding it.

MR. EL-HINDI:  And I think with law enforcement just across the country different groups are going to be positioned in different ways with respect to their resources and their focus.

And so as Laura said training and making them aware of how this information can be used, how it can be used to make a case go more easily is something that we need to work on.

I think she's right, there is definitely an appetite out there for the use of this information for local issues.

Just the way that it works, some of our larger municipalities have direct access to the data through relationships with us. But many of the smaller ones will work through a state coordinator.
I think that that's something that we're probably going to be focused on as we look at BSA value and trying to make sure that in those local situations we're able to have the information used as effectively as possible.

MS. RICHARDSON: There is the federalized local too which is the U.S. attorney's offices, 96 of them I believe. So those people, main DOJ is acting as a coordinator and farming out the appropriate leads to every U.S. attorney's office. So they're getting that kind of local action too.

And then there may be local task forces involved in elder justice too. Because it is a DOJ priority as well as something of interest to the local and state law enforcement and adult protective services personnel.

MEMBER WALKER: Thank you for being here and learning about the project for looking at the value in the filings is really important. And again very welcome.

I don't know, you've talked about how
you're going to go about it, but I think maybe soliciting feedback through the state banking associations would be extremely helpful versus picking out different banks so that everybody has an opportunity because I bet we all have examples that we could bring up like continuing to file the same CTRs for the same customer for the past 10 years, those kinds of things would be good to be talking about. So thank you again for being here.

    MR. EL-HINDI: And I'll just say that we do have state banking associations reach out to us and engage. And every time they have engaged with us we have talked about this project and said would you be amenable to having the consultants who are working on this project reach out to you. And the response is always yes.

    MEMBER WALKER: Yes. Western bankers would be very much -- we would welcome.

    MEMBER DAKRI: I think all bankers would welcome that actually.

    MEMBER WALKER: It's like line up.

    MEMBER DAKRI: That was one of my
questions or my comments also would be well, we all understand as bankers this is a common goal for everybody in this room to make sure that we have the correct information that's out there.

But we also want to make sure that we balance a little bit of what we're reporting. SARs definitely are extremely important, but I have the same thing with CTRs where you're going on and on and on. And I don't know if there's a better way to do it instead of a daily or you know, is there a better way to aggregate, or some other method that's more modern than what we've been doing for the last 30-40 years that would be more useful.

MR. EL-HINDI: I'll just share with you that we have been focused -- first of all, CTR information is also incredibly valuable. One thing to keep in mind is that SARs are subjective reporting. CTRs are objective.

And so, when you combine those two, there are force multipliers there. So, CTRs are very valuable.

We know that the aggregation issue is
costly, and we know that a lot of money goes into CTR reporting and that not all banks are situated the same way.

So there have been some ideas that we've been discussing and the potential to experiment with different types of reporting that could come in that could give us the same value information, but try to reduce the cost as you know.

We have our -- you are able, for certain categories of cash intensive businesses to exempt those customers from CTR filing requirements. And we tried to improve that process several years ago to make it easier to take the exemption or to be examined for it with mixed success.

Even though we've tried to improve that, some financial institutions will say it's harder to monitor the exemption than it is to just provide the information. That's still a nut that we have to crack.

MS. RICHARDSON: Can I add a plug for the utility of the CTRs though in analysis is always very interesting to our analysts. When they see
let's say CTRs on a subject who you don't think is in a cash business and there isn't a SAR as one example. Why is that professional walking to the bank twice a day and depositing cash? Does not make sense to me.

Or when we compare it to some of the other types of reporting that is supposed to be cash-related. Like there's the currency and monetary instrument report of the cash going in and out of the country across the borders.

It's really funny sometimes to see, the bank says you deposited this much cash, but you didn't file that importation form. Where did it come from?

Or there's this form 8300 that trade businesses need to report for cash receipts. We often see either there's an 8300 filed, some business got X millions in cash and there isn't a CTR so where did it go, the mattress?

Or the vice versa, like the business deposits all the cash and you all file the CTRs and there was no 8300. We're like again where did you
get the money if you didn't file this one. So CTRs
are really useful in case work and especially --
basically for money laundering purpose. And
fraud. So don't stop filing them.

MEMBER DEBIASI: Quick question.
Fred DeBiasi, American Savings Bank in Middletown,
Ohio.

Just curious with the CTR threshold.
That's been in place I think since the late
seventies, early eighties. Any thoughts on
inflation adjusting that at some point? To make
it easier for banks.

MR. EL-HINDI: The issue of thresholds
always comes up. The last time that it came up in
a concerted effort was around the time that I
started at FinCEN.

And there was a lot of talk about
increasing the threshold I think at that time from
10,000 to 30,000 to take into account inflation.

The FBI at that point came in with some
statistics in terms of just how much information
would be lost, particularly in the terrorism
context. And that issue began to die away.

I would just say that, and this is as we think about value and as we think about thresholds, our goal is not to respond to just anecdotes or ideas, but to actually have metrics that we can look at to see how those thresholds are set and figure out whether or not they need to be adjusted.

On the one hand, $10,000 doesn't pay for as much as it used to. On the other hand, $10,000 in cash given the variety of ways that you can move money and use electronic debit cards, et cetera, et cetera, could be seen as more unusual now than it was in the past.

This is where we get to some of these tricky questions in terms of value. And as our director has said and the under secretary has said when it comes to thresholds we're going to study it so that we do it right and not -- yes, $10,000 doesn't buy as much as it used to, but that's not the only part of the story.

MEMBER DEBIASI: That's a good point.
Is there other metrics that would be maybe more valuable than just the dollar figure, even if it was lower, higher, et cetera, that would be more helpful as opposed to just an arbitrary number that law enforcement --

MR. EL-HINDI: It's a good point and I think it's some of the stuff that Erik and the team that are focusing on value will actually be diving into.

MR. KIEFEL: To that point that exactly is the types of questions we're trying to answer through this project.

One of the ways we've initially begun to look at it is we publish every year and we give out awards to law enforcement agencies that put together and nominate cases that have used BSA in many cases very extensively.

And as part of that we recognize the institutions whose reporting was crucial and involved in those cases.

And one of the things that we've begun to look at is for those cases that won the awards,
as well as the nominated ones, how much would their case have been affected if the threshold had been higher.

And in some cases as much as two-thirds of the CTRs would have been gone. And those CTRs, as Laura mentioned, connect through the transactional information different individuals, different entities. And those connections might be lost.

So that's the sort of thing that we're trying to understand better quantify and be really able to say with some assurance, this is what happens when you pull the string on that value chain in a way that's detrimental to it.

MEMBER DEBIASI: To your point about lower -- or the debit card transactions. You could probably make a counter argument that you could even make a case to lower the threshold which I'm not advocating by the way.

(Laughter)

MR. EL-HINDI: You said it. Strike that from the record.
That's exactly the point. And then you think about the variety of different illicit activities out there where the threshold for third-party money laundering.

You're talking about people who are professionals who are laundering millions of dollars. And then you compare that with the support for a terrorist act where the cash is going to be certainly much smaller.

These are some of the tough issues that we have to deal with when we come up with a system where we're trying to collect as much valuable information from all of you while at the same time being mindful of the resources that go into it.

MEMBER DONNELLY: A comment if I may. First of all, thank you for the information. I think the data that -- what it really is used for is very helpful and to take back and share it with the people who actually do it on the ground.

A comment on the 314(b). We use that and it is -- if you haven't used it, I would really encourage it. It does help us make a better
decision and we appreciate that rule. When it came into effect, we decided to use it, and it has been -- we don't use it a lot, but it's extremely helpful.

The final piece on the exemption on the CTR, is there a process or a way that we can think through that we can request exemption back through the law enforcement agencies and put the onus back on them to tell us no.

Because I have the same as somebody has said, the same person been filing for the last 15 years. If we can send in a request saying is this guy a bad guy, come get him, or if he's not a bad guy can we exempt him to where the responsibility is back to the law enforcement agent or whomever, whoever gets it to either bless it or to tell us no.

MR. EL-HINDI: It's an interesting point. Right now, the exemption process works by regulation. If the customer meets certain requirements, you get to exempt them.

But we have not incorporated into that
anything specific that you might be able to obtain from law enforcement. It's an interesting idea.

MEMBER DONNELLY: Put the onus back to them. And they may not want that work, but it's the same work we're doing so it's a suggestion or something to think about.

MR. EL-HINDI: Thank you.

MEMBER SHETTLESWORTH: If I could just bring it into perspective a little bit. With Main Bank in Albuquerque, New Mexico, we're $142 million in assets, one location.

We have a whopping 14 employees. Five of those employees participate in filing of the SARs and CTRs.

We have at least three of our individuals review every single CTR and SAR. We hire a third-party company to come in once a quarter and review 100 percent of our CTRs and SARs.

We feel that's our -- no one put that requirement on us. The FDIC certainly has, but in order to comply with our low volume we feel that's the only way to do it.
And so my comment is that's excessively costly for small banks like us. And so anything we can do to make it a little bit easier.

I mean, I would love to raise the threshold. I understand it's not there, but if there's anything we can do on the smaller, low volume scale that would be hugely appreciated because this is just excessively costly in my view.

MR. EL-HINDI: And this is why we like this forum, and we like opportunities to engage with community banks because we know that the costs are high and we want to make sure that you understand just how valuable the information is.

And we do look for ways to try to provide -- to make it easier.

I think you all would probably have seen the recent statement that FinCEN and the federal agencies put out with respect to resource sharing in this context.

We hope something like that for certain institutions can be at least one way to address some of the costs where there are certain things that
you can do as a smaller financial institution in
terms of engaging with others, with other
institutions, potentially sharing certain costs or
certain information that could be helpful.

That's just part of it, but we are very
much aware of the concern that you have.

MR. DAVIS: Thank you very much. This
is a great discussion. I apologize for having to
cut it off, but we've gotten significantly behind
here.

Thank you again to everyone for coming.
I might suggest since we only have one break that
we keep it, but if we could cut it to 10 minutes
that would get us back here at 10:45.

And I will work with the schedule to try
and get everybody a break for lunch right at noon
again. Thank you.

(Applause)

(Whereupon, the above-entitled matter
went off the record at 10:36 a.m. and resumed at
10:51 a.m.)

MR. DAVIS: Just to kind of give
everybody a preview, I thought -- I talked to Anthony and I think we're going to move the ombudsman update to the afternoon. And we'll keep the member discussion next as scheduled.

And then I talked to Keith and he thought he could get us up to our -- or get us out for lunch on time. So, we'll do -- in the afternoon we'll do the supervision update right after lunch and then we'll have the Ombudsman's Office update right before or right after the break, and then the Supervision Modernization Subcommittee update after that.

All right. So this is the second time that we are doing the updates from the committee members. I think for the new members I believe I talked to each of you on the phone to kind of give you a preview of what this was.

But we won't start with you so you can kind of see how this works. The basic idea is that each person gets a few minutes to talk about what they're seeing in their markets. It's really kind of free time to update us on whatever you think is
most relevant. It could be your markets, it could be what you're seeing with your customers, it could be something unique to the bank.

I believe we started on this end last time so I asked Danny if he would go first this time. And I know Dave had complained --

(Simultaneous speaking)

MR. DAVIS: I do remember David complained he didn't have anything to say.

(Laughter)

MR. DAVIS: So with that, please.

CHAIRMAN MCWILLIAMS: Good luck Chris.

MEMBER D. KELLY: Well, thank you.

Hometown Bank, Oneonta, Alabama, we're about a $360 million bank.

Our primary customer base is wage earners and small business. Very diversified as far as employment, Birmingham and several areas is where most of our folks work and so it's -- we've got healthcare, automotive, you name it. It's pretty diversified.

In regards to the bank the biggest thing
I think we all kind of felt this was the increase in deposit rates. It finally tipped the -- I know we had a member and I can't recall her name now, but she said they had done a study I think you guys may remember that at 2 percent that was the tipping point that if we ever got to 2 percent with deposit rates then we'd have people moving, that the betas would be an increase.

And I think that was true. And we had to play some catch-up to get there.

I don't want to steal what David was going to say about that too, but I don't anticipate even though the Fed's on hold I don't anticipate that coming back. I don't anticipate -- I think the competition for funding is such that we're going to see that hold. I think the pricing is going to hold for funding.

From an economic perspective, and I'll tell you, we pay a lot of attention to our customers' activities. We count every swipe, we count every engagement. That's what we call it.

But any kind of activity that they're
doing, loans, new accounts, down to items cleared, you name it.

And the reason we do that is because we have the information, and it kind of gives us a feel for the economy in general. Because when people are active they're doing something, they're buying -- commerce is taking place and that's what we like to do.

I will mention that we do quite a bit of one to four family on the books, in the portfolio. And, in December, we had a record month for those type of loans, but it was all front-loaded demand because we saw a marked decrease in January, February and March.

And when we look at these metrics we use to gauge customer activity and gauge customer economic activity, I would say we're down somewhere between 17 and 20 percent.

So, I'm not too concerned that we're going to see a replay of the great recession, but this is really where the rubber meets the road.

We have about 20,000 customers so it's
a pretty big sample. And I'm a little concerned that they're not as active as they were.

Small business, they got the big pump of the tax bill, but they're out of money now. I mean they ran through that. They found a place to spend it. It's not necessarily transferring over to the wage earner. So that's just again my perception from where I am.

MEMBER HANRAHAN: So I've been a banker in south Jersey for 30 years, and the economy in south Jersey is pretty darn good.

Business owner confidence is strong. Probably the biggest complaint is their inability to attract all the employees they want, but if you've got to have a problem that's not the worst problem in the world.

And costs are under control, and business owner profit margins seem to be good.

As Danny just commented, my biggest concern about banking conditions is the low, flat yield curve.

And I thought about this as Jim Watkins
was making his de novo presentation. I applaud and love all the work that FDIC has done to communicate that it's got an open door about de novos and sincerely wants them to be formed.

As I toy with the idea of -- if I were in that position today of starting a new bank, I don't think the biggest challenge would be raising the right amount of capital. I don't think the biggest challenge would be obtaining regulatory approval.

I do think the biggest challenge would be convincing myself that in today's yield environment I'm going to be able to generate an ROE that is the right ROE for my capital and for my friends and family who I ask to invest in a bank with the really challenging yield curve that we have today.

And as FDIC seeks ways to encourage more banks to form I think you've done a lot of good work to make sure that prospective bankers know what is required and to let them know that you're eager to see it happen.
I suspect that part of the reason, perhaps a big part of the reason there aren't more banks forming is it's just, it's a challenging capital thesis and investment thesis to make to be able to generate -- I think it needs to be a double digit ROE that you get to in a short period of time.

It seems to me that with today's yield curve and what it looks like it's going to be for a while that's a challenging condition for an existing bank and it's an especially challenging condition for a new one. That's all I've got.

MEMBER K. KELLY: So, I'll try to piggyback off of David and say that as you think about capital it is a challenge for in particular minority banks.

But the thesis I think David is proposing is that in the banking industry it is very hard if you're an interest income only institution to make the required returns for investment. I think that's what you're saying.

And so we're having to think through how do you look at supplementing through non-interest
income and other fee structures that allow for us
to kind of compensate that to generate a return on
equity that will be suitable for investors.

But the bottom line structurally if you
read the Fed Chicago's report, it just demonstrates
for minority banks and the space that they play in,
it is a strategic and demographically challenging
structure. And that's something that we have to
address on a daily basis.

And so in my role as chair of the
National Bankers Association which is about 92
years old serving the minority community, that's
an effort we're going to be focused on in looking
at trying to find partners through the regulatory
agencies, through business, industry, and
legislatively to help us compensate and make some
good decisions to be sure that we can tap into that
market.

Now, why is that important? The FDIC
has done a study on the underbanked and unbanked
and as all of us know that is capital or cash that
is outside of the banking system.
We also know that it disproportionately affects ethnic areas. And so we have a strong effort to look at how do we help shape and change those numbers and demographically make a difference in those communities.

So I'll say back to Detroit and our banking environment has been very positive. Many of you probably have heard all of the positive things that are going on in Detroit.

We have been fortunate to partake in some of that. Some of this is going to take a very long time to get to where we want to go, but the reality is we are in a very positive business market there.

There's one of the largest announcements of investment, Chrysler and Fiat, that just happened recently and so we're very pleased with what's going on in Detroit, and I would invite all of you to come and visit at some point in time and most importantly spend some money. Thank you.

MR. DAVIS: Thank you. Louise.
MEMBER WALKER: Okay. Louise Walker, First Northern Bank, Dixon, California.

Our markets continue to be healthy and locally we're focused on job growth, improved healthcare and infrastructure, education and regionally building an inclusive economy.

There is a movement out of the Bay Area because of the cost to live there to move to more rural and affordable markets. And so we're experiencing growth from that.

We're also experiencing intense competition for loans and deposits with continued underwriting requirements being somewhat lax.

Water has improved in California, but because our climate is so unpredictable we are looking at right now having impacts for pollination on trees for the upcoming season.

I do want to acknowledge chairwoman for coming out to California to the Western Bankers CEO Conference and visiting with us.

She asked for some feedback and so I'm just going to quickly go through some of the items
that bankers have asked me to talk about.

The first thing is the regional office in San Francisco and then of course the field offices that support that.

The safety and soundness examinations have been very refreshing. They have been focused on the big picture, and it's been conducted in a collaborative and fair and transparent manner, and it felt like a true partnership and so we want to thank them for that.

And also we appreciate the focus on the elimination of the outdated FILs and the supervisory advisory memos.

We would also like if FDIC would consider looking at CRA. I think that was probably the biggest item that came from the membership is CRA, focusing on consistency, what counts and what doesn't count, and that changes from one exam to another, that we need to look at how to define our assessment areas, raising the large bank asset threshold, and just the definition of small business doesn't work in California.
And so CRA is very impactful to the rural banks in California and so looking for whatever help FDIC can do in that area.

Of course, the most costly and burdensome area is BSA. And so continuing to find a solution to reduce the number of CTRs and maybe looking at a seasoned customer exemption as we just talked about.

And of course cannabis, just what we can do, any help there to have a safe and better regulated system and safe communities.

One of the items is public bank. There's currently an effort to form a public bank in California. And right now there's three separate bills that are being proposed.

And so we would welcome the opportunity to sit down with FDIC and gain a perspective on the manner in which these entities would be insured. So that's an item that we're facing in our area.

Also, capital ratios. There's some concern about the 9 percent, that they would welcome more an 8 percent, keep it simple and
optional.

And I'm not sure about this, but it appears that if you drop under 9 percent that you could be subject to prompt corrective action because right now it's at 5 percent. You can opt in and opt out for a valid reason. And so the question is what would be involved with that.

And it may restrict some banks from opting in at all.

TRID. I know this is an item for CFPB, but it's something we've been working on for a year. And so any help that we could get from FDIC would be very welcome.

And it has to do with TRID on construction loans that many rural banks got out of construction lending. And with the various disasters that have been happening in California and elsewhere we are looking for an exemption so that TRID would not apply to construction loans because -- well first of all, the disclosures can be confusing for customers and this would allow more banks locally to participate in construction...
lending like it was before TRID was implemented.

Just in general, there were comments on compliance and the level of detail required and reviews. So maybe focusing in on the compliance area.

And then some rural banks commented that they had received criticism on out-of-the-area lending which they believe is necessary because there aren't a lot of opportunities in their market area.

And then I know we're going to be talking about it later, but the brokered deposit national rate cap, the scrutiny on liquidity and what is considered stable funding. Some banks have been surprised in the exam process that their level of deposits, or their deposits in certain areas have been questioned which they thought ended up being stable funding.

So that's just a rundown on some of the items. And again, thank you for coming to California. It was wonderful to have you.

CHAIRMAN MCWILLIAMS: It was a
homecoming. Thank you.

MEMBER EDWARDS: I'm Jim Edwards, CEO of United Bank in Zebulon, Georgia, about an hour south of Atlanta.

I've known Louise for a while here. Great summary. I just want to say ditto, ditto, echo, echo.

Two comments just quickly there. Out of the number that she talked about there.

I do hope that the FDIC will continue to engage on CRA modernization. I know some of the other agencies appear to be moving on this, and I think FDIC has begun to do that as well so thank you.

I think it's time to do that and I think it's time to look at how to continue to make that relevant in today's environment. So thank you for your efforts on that.

The capital rules, maybe we can have more time this afternoon to talk a little bit about that. I share your concerns about that. I'm hearing a lot of banks that are just saying I
thought this was supposed to be regulatory reform, but it feels like if we fall below this new level that, is that really reform? A lot of concern about that.

And so obviously I think an 8 percent threshold would make a lot of sense because I don't think any banks are going to run at that threshold.

I mean I know we would not. Whatever the threshold ends up being, we're not going to be comfortable, our board won't be comfortable running right at that line. So again, quick thoughts on that. Maybe there's more time this afternoon to talk about that.

I am a relatively new member on the committee here so just as a quick reminder United Bank is a 110-year-old bank. We're located in 10 contiguous counties south and east of Atlanta in suburban and rural markets primarily.

Historically very much of a consumer-oriented traditional bank. Over the years have grown to also include a lot of commercial lending, trust and mortgage operations as well.
The Georgia economy though remains really strong overall, and we're excited to continue to be a part of that.

Georgia is fortunate that especially in the more metropolitan areas we continue to see solid population immigration which is certainly helpful. And that's led to continued strong -- a strong number of housing starts which has helped fuel the economy and has obviously been helpful for our industry.

From a banking standpoint, statewide you'll find, in the more urban areas, you will find banks that our loan/deposit ratios have risen dramatically over a couple of years ago. Liquidity is becoming an issue. Deposit pressure is certainly there.

As you move into the more rural areas, you will find that that's not the case as much. We are still running at a lower deposit ratio than we wish we were, frankly. And we are looking more for loans, although we have begun to see or continue to see I would say moderate loan growth this year
as we've moved into this year.

Speaking to our bank specifically continue to see loan portfolio metrics that are probably the best I've ever seen in my career in terms of charge-offs and past dues and obviously I think any good banker, when things have been this good for this long we're all trying to look around the corner and see what may be coming next.

But so far at least in our institution we have not seen any deterioration in those metrics.

I will say that with this solid economy that continue being able to hire -- recruit and hire people has become more of a challenge for us than it was certainly a couple of years ago and that's something we've spent a lot of time working on here recently.

Making sure we're maintaining our staff. We run a call center that's open from 7 in the morning till 11 o'clock at night, seven days a week, and so staffing that today is more of a problem than it was historically. But that's
something we've been able to work around and continue to do well.

In closing, I would just say we did recently just finish up a FDIC Safety and Soundness Exam. It was probably one of the most efficient exams that we've ever had.

I felt like there was much more work done offsite. We sent more information to our regional office or to our field office.

When the examiners showed up they had done a lot of work. And so that was appreciated. The safety and soundness portion was probably only active for a little over two weeks which was one of the quicker exams. So I did want to commend the FDIC for the efforts that have been made along those avenues to really make the exam productive and yet efficient as well. I think that's it for me.

Thank you.

MEMBER DAKRI: Asif Dakri, CEO of Wallis Bank out of Houston.

We are probably a little bit more unique than some other banks here in terms of we're in
Texas, California and now Georgia.

From a macro level, I guess if I look at the cities we're in, in the Texas market, Dallas, Houston, San Antonio, still remain very strong. Economies are good. No real signs of significant slowdown at all in any of those markets.

Texas has seen an influx of people over the years coming from California and other markets, and I think that will continue now with the new tax laws. A lot of the higher-income people are trying to get out of places like California because no longer a deductible on their SALT taxes.

We also see in Texas a lot of consolidation going on. The community banks are disappearing one by one. While they're still called community banks and now they're the $10 and $12 billion community banks as opposed to the $1 and $2 billion community banks.

And I don't see that stopping anytime soon. As we see more and more players come from out of state into the Texas market, we see them picking up whoever they can to try and get that
critical mass as quickly as possible.

That being said, competition is still strong. Everyone is looking for the same dollar in terms of deposits and the same loans so that remains very competitive.

If I look at our Los Angeles market, it is still doing well for us. We see that market to continue to be fairly strong. Unemployment has dropped down there. We have good numbers regarding our loans and our demand for loans. We don't see that slowing down anytime soon.

Atlanta, similar as what Jim just said there. Another strong market for us that's doing well.

If I drop down into kind of industries, we see housing is still fairly strong, multifamily is still going and there's still construction moving there.

Retail growth in some of the cities such as Houston and Dallas, and San Antonio continues to be strong. I think that's just a function of migration of people coming into the market.
L.A. retail is still going, but we see a little bit of signs of slowdown there. Industrial growth has been strong across the board, including L.A., which I think they have a shortage of industrial space so we see a lot of growth there. Ditto for Houston, San Antonio and Dallas in that respect.

Overall we don't see much of a slowdown happening. The bank has had great years. We've been fortunate to be in Texas over the last 10 years so we didn't have a lot of the issues that the rest of the country did have. So we've been just steadily growing as the days have gone on, and we believe that will continue for the next 12 months or so at least.

Rates are a concern with the yield curve and what will happen to our cost of funds and whatnot. We've seen obviously the deposit betas increase over the last 6 to 12 months.

We probably are in more hypercompetitive markets than some other people. In L.A., their CDs are reaching close to 3 percent
at this time for 12-month CDs. Texas market, we're in the 2.65, 2.75, 2.85 for 12-month CDs.

We have seen recently people start dropping the longer end. So as we go 18 months, 24 months out, we're seeing the pricing on the CDs start to come down. But short-term pricing is higher than I think all of us anticipated.

But overall the markets are strong.


We actually -- I consider it an honor being the first bank granted a charter in the United States after the financial crisis.

We were the first bank in Pennsylvania in five years that was issued a charter at the time. We're actually the only bank that has been chartered as far as new startup banks in Pennsylvania.

We serve a unique community. We started with $17 million in capital and about 10 employees when we opened the bank and now we just
crossed our five-year anniversary mark in December, this past December, and we are up to $370 million and have over 50 employees.

So hopefully that gives you some confidence that there are markets that really do want community banks.

We have two branches. We're actually looking to -- we have approval for a third branch. That should open in June.

What we found in the community is that there was so much demand. We deal with the Amish and Mennonite populations called the Plain Community.

So they drive horse and buggies. So their limit of travel circumference is very small, so 5 to 10 miles is basically their travel allowance in a horse and buggy.

So we had a lot of people asking us well, can't you come to our area. There's a lot of underbanked people in the southern parts of Lancaster County.

So what we did is we came up with what
we think was an innovative idea. We built a mobile
bank unit which is actually a 29-foot RV, has an
ATM, has a walk-up window and actually has a
facility where you go inside and open accounts.

And that mobile bank serves nine
separate locations every week. So people know.
And we try to strategically put it in locations that
we know the Amish would frequent like the hay sale
so they'll know that the mobile bank would be there.

What we've seen is what we expected that
that will probably actually determine where we put
our next brick and mortar branches because the
locations we thought would be very successful have
been incredibly successful.

DIRECTOR GRUENBERG: Lori, you want to
tell everybody what you call your mobile bank?

MEMBER MALEY: We call it the gelt bus.
And if you know anything about Pennsylvania Dutch,
gelt means money.

They actually call our chief lender
Bill O'Brien the gelt chappie which means money
man. So we just extrapolated that.
Even though the bank's only open five years, Bill has been a staple in that community. He's lent to the Amish grandparents, the parents, the children and now he's into the generation of the grandchildren. So it is a very family-oriented area.

Agriculture is very big in Lancaster County. Unemployment, Lancaster County is in the top 5 counties out of 67 for the lowest unemployment. So a lot of times our customers actually have trouble finding people to hire as well as us.

So I think the things that we're seeing in that market is some high loan and deposit competition. We're seeing competition with pricing.

Our bank has always had incredible loan demand. From the time we opened the doors, it has been just nonstop as far as loan demand. It's highly unusual.

We've had just several -- a couple of small delinquencies. No loans past due. No loans
charged off. No loans over 90 days. So the community really reflects that mentality of paying back money. That's what they believe.

Deposit competition is incredibly -- we're noticing it a lot in the economy there. That's really our problem, trying to get deposits at a reasonable price to fund the loan growth.

I think what we also see in our area, not necessarily with us, but there's higher reliance on non-core funding. We really have taken deposits out of the community.

And we're willing at times to pay a little bit more to take that money and fund it for loan growth. I think we're seeing lower asset yields due to some higher concentrations in retail and commercial real estate lending.

And there are still some challenges relative to appraisals in some areas. So it's hard to find appraisers, it's hard to find appraisers for certain properties.

But just one comment, I wanted to thank the FDIC. I think you've done a great job bringing
the de novo thought to the forefront. And I think it will be benefitting many communities.

I think with all of the growth we've seen in our market. You know, sometimes it's hard to manage as a startup bank. It's a very difficult thing to manage. But we do appreciate, and I think our community appreciates, having the chance to have that charter. So thank you.

MEMBER DEBIASI: Good morning. Fred DeBiasi, American Savings Bank, Middletown, Ohio.

I would like to start out by expressing my gratitude to the Chairman McWilliams and the FDIC staff for this opportunity to sit on this committee and to be here today.

I know we're certainly no question my bank has to be the smallest bank represented here maybe ever since the committee was founded at $43 million in assets. So to have a voice here is truly an honor.

I will say I didn't realize being my first meeting that I would be given a microphone and a captive audience.
That being said, I promise I'll have my comments concluded by 6 p.m. tonight.

(Laughter)

MEMBER DEBIASI: In all seriousness, just to give a quick synopsis of our community in southwest Ohio.

Middletown, Ohio at one time not in the too distant past, the early sixties, we had the highest, third highest per capita income in the country. And really we're a microcosm I think you could say of what's happened throughout the rust belt and into Appalachia.

Today our income per capita in Middletown is less than $21,000. Our median household income is approximately $37,000 which is well below the state and national average.

So you can kind of see what's happened in the last 50 plus years in our community.

And really to me it underscores the value of a community bank in a town like Middletown because truly we are a main source of capital for those in our community that may not otherwise be
able to find capital.

And also we're an agent of change in solving problems where I think a more nebulous out-of-town bank just simply isn't going to get engaged in a community and help problem solve.

I can go into a lot of issues that we're facing. Certainly I'd be remiss if I didn't mention the impact that the opiate problem has had in our community in Middletown and the devastating effect it's had. And working through those challenges in our community has made everything more difficult from banking, quality of life.

The good news is in 2006 before the great recession we had our largest employer. We're a steel town. Our largest employer AK Steel had a lockout which was pretty devastating. We were just rebounding from that and then the great recession hit so we had a double whammy.

The good news is 10 years later we're resilient. We're on the I-75 corridor between Cincinnati and Dayton. Vacant buildings are down in our community. They're being absorbed.
Housing is being absorbed in our community. So things are moving in the right direction. We're in the process of a downtown revitalization.

So with that being said I'm still bullish on our community. I feel like what the challenges are is again banking in today's day and age, and I can go on a lot of things.

I do want to echo what Jim said though as far as the FDIC. Our recent, most recent compliance exams really were a game-changer for us.

A lot of the heavy lifting was done up front. They were very streamlined. And literally our compliance -- our field group onsite was in and out in less than three days.

For a bank that has 11 employees, I can't tell you how much we appreciate that and the effectiveness of that exam. It means a lot.

Because even a very smooth exam for a bank of 11 employees, it's all hands on deck and it's lost productivity no matter how well it goes. And most times it goes well, but it's still lost
productivity, and we certainly appreciate any time our regulators can help relieve some of that just burden of time more than anything.

I know we'll probably touch on some things later. I do want to mention just a couple of things really quickly in terms of on a higher level.

Again, as far as regulatory, being a state-chartered bank we feel the strength of the state regulator and FDIC partnership is vital.

We believe for the sustainability of our state charter and state charters in general it truly needs to be a partnership of equals. And we're hopeful that the FDIC will if they aren't already pursuing new opportunities to help educate our state examiners. We feel that's important.

One last comment I'd like to make is again on a larger scale. To some degree, we're envious really of what a champion the NCUA is for the credit unions.

And I know that there's a clear and critical role for the FDIC, but we believe the FDIC
along with the OCC and the Fed could maybe speak to the strength of our country's banks as well as be more proactive in ensuring sustainability of traditional community banks in the face of credit unions abusing their intended mission and non-banks continually encroaching on our industry.

I believe the regulators could be a huge asset for our industry in pursuing laws in Congress regarding data security. If they did weigh in in our defense. And they would be a credible voice to help drown out irresponsibility on the part of retailers and other gatherers of data.

So again, a little bit of a macro level there but we would certainly appreciate again, I know the NCUA is certainly a cheerleader for their industry, and we're hoping maybe for more of the same from our federal regulators. Thank you.

CHAIRMAN MCWILLIAMS: So I've spent plenty of time driving up and down I-71 corridor, and it's an honor and a privilege to have you here. I know how much those communities are struggling, and it was important to us that you have that
MEMBER LEAVITT: This is my first time at the table so just a brief introduction to Northfield Savings Bank.

We're a 152-year-old mutual headquartered in Northfield, Vermont, which is also home to Norwich University, celebrating its 200th anniversary this year as the nation's first private military college. My dear friend President Rich Schneider has been at the helm since 1993. So quite a remarkable story.

And one of his predecessors back in 1867 founded our institution. We've been independent ever since. No acquisitions and never having been acquired.

We're just over $1 billion, and we have approaching $120 million in capital. We operate 13 offices in central Vermont and the Champlain Valley and county, the Burlington area.

We have a roughly even mix of residential and commercial loans on our books. That's been heading in the commercial direction.
much more assertively in the last few years.

    We've been growing at a high single
digit rate overall.

    We compete in a market for a small state
that is very active with what I call legacy banks.
These are institutions that were once founded and
headquartered in my hometown of Burlington that are
now carrying the flags of People's United Bank, TD
Bank, Community Bank NA, Citizens Bank, and Key
Bank.

    And they control 90 percent of the
deposits in the MSA. The MSA itself is just the
three counties along Lake Champlain and
northwestern Vermont that make up about one-third
of our state population, state population being
about 640,000 all in.

    So that is our one metropolitan area
that is relatively healthy and robust with
educational institutions, high technology, legal,
food services, and products. A good mix of
entrepreneurialism and public service type
positions make up our communities up that way.
We are now the largest bank headquartered in the state of Vermont by way of attrition. We don't have the largest market share, but now hold that distinction, that visibility and responsibility that goes with it.

As far as Vermont's economy, it's chugging along moderate to slow growth. It depends on the area of the state. It's very much a tale of rural versus the more vibrant metropolitan corridor.

We have low unemployment, sub 3 percent, but we also have low job creation and labor force growth. So that's the dichotomy and the challenge there in a state that is aging.

Trying to get more diverse. In the urban area, we're about 4 and a half to 5 percent minority, but that's well shy of where we would certainly like to be. But it's growing.

Challenges. Our strategic imperatives right now are to grow our core deposit base. The generation of those core deposits are earned day in and day out in the trenches without
doubt.

Our commercial growth has been impressive, and we continue to layer resources in there. But we have to keep it going to fill the vacuum that the legacy banks have created by pulling the decision-making out of Vermont to their decision centers in other states.

We are looking to appeal to the next generation of customers, not necessarily Millennials only. We define it as people that are coming into a first-time event anywhere in their life cycle and trying to say, “Okay, you're going through something. We have the solutions. We've designed these just for you. We want to talk to you.”

But that means we've got to really compete with the larger institutions for that.

And then IT and cybersecurity. We took up John Vogel on his invitation in 2015 to come to the Cybersecurity Assessment Tool briefing in New York. We came back and formed an Information Security Council that I lead and have our VP of IT,
our CFO, our VP of Risk Management, our network administrator join me on every month.

We built a new operations center in Berlin, Vermont, near the state capital of Montpelier in 2015 and then we co-located a data center with a third party in another state to make sure we were running in realtime potential DR crossover.

So we’re trying to build our scale in terms of systems to -- I keep telling our folks it took us a century and a half to get to $1 billion. And doing the math if we continue on the track that we’re on we’ll be at $2 billion inside of 10 years. So we have to have the scale to go with that if we’re going to capitalize.

From a regulatory standpoint, I just want to echo what I’ve heard around the table so far.

We had a recent safety and soundness. We too were impressed with the work that was done up front offsite. A new examiner in charge really came through in that regard, tackled the assignment
well, brought in some senior people on support.

Where we got hung up wasn't in all the coordination between the FDIC and Northfield Savings Bank, it was -- my surprise like I've heard elsewhere this morning around the national rate cap and getting very intimate with that national rate cap and how it's impacting on the definition of our funding concentrations under the liquidity segment of the safety and soundness.

So, I believe there are flaws in that calculation. And I would certainly like to explore it to understand it better.

But we are careful about understanding our competitive conditions. We look at the same rate watch information that the FDIC does.

We do a scatter plot on all our maturities including non-time transaction accounts to see where we're at on both our standard rates and our CD specials and we're clearly right in the market, not excessively above.

And to have that hanging over our head to the extent that with a nearly 12 percent tier
1 capital ratio we would ever be considered less than well capitalized it could really impact on our growth plan.

So, if I don't get another opportunity to speak on that I'm just putting that out there now. So in that liquidity section of the exam we were kind of thrown off a little bit.

We also volunteered to be a test case for one of your regional offices on the Project Five standardized exporting of loan data which created a spooling effect in terms of getting connected with our core vendor, with the FDIC, with our IT shop.

There was really terrific support all around from all three parties. So there was never any contention. But we did volunteer to do that.

But I think net result is it probably cost us a good couple of weeks on loan review, getting the FDIC loan reviewers fully oriented to our data offsite and onsite.

And that led to a couple of issues relative to what we thought were impacting on the
scope of the exam.

So we're happy to have done it, we're glad we learned the lessons. We want to move forward. We agree with the intentions.

But I did hear from one loan reviewer that that individual's preference is still to be onsite because of the nuance and the qualitative factors relative to examining a loan book. It's really hard to do with data alone.

I'm not going to say it's a purely subjective line of work, but there is subjectivity involved and there are other sources of data besides what you put through that pipe that help you understand where that loan is at.

So I'm sorry if I've overspent my time, Chad, in my first time in the box and I hope you invite me back.

I would say if there are any risks right now that we're all facing in Vermont it's the potential and the downturn for CRE concentration risk.

You've got commercial and industrial
that are generally healthy. Anything that is real
estate that is occupied based on the overall solid
economic conditions.

But then it kind of gets a little bit
sideways when you go into some of the more
speculative pro forma projects, whether it be in
hospitality or in general office.

Retail seems to be all right.
One-to-four family or investment property real
estate seems to be all right.

But I would say everybody is waiting to
see if we're going to have one of those anvil
falling from the sky moments where all of a sudden
the dynamics shift overnight as they did in 2008.
I don't want that, but that -- I rest my case.

MEMBER EPSTEIN: Keith Epstein,
Roxboro Savings Bank, Roxboro, North Carolina.
We're located just north of Durham County and just
to the east of Orange County. Makes up two points
of the Triangle – Raleigh, Durham and Chapel Hill.

Person County has a population of
approximately 40,000 people. We are a $225
million asset institution in our 96th year of existence. We have $169 million in deposits and approximately $115 million in loans.

Our mantra is that we honor our past and build our future by giving every customer a banking experience to remember. And we like to think that that mantra expresses to our customers and prospective customers the passion that we have for serving the people in our communities.

And I must say it's inspiring to be part of this group and be with so many people from all corners of the country and regulators, examiners that share our passion for community banking.

The industry is alive and well. Not everybody knows that. We've gone into a mode of self-promotion if you will.

Historically, we've been a bit humble and not pursued the spotlight, but we are now actively telling our story. We think we have a story to tell and a means of differentiating ourselves from some of the other institutions that serve our markets, the regional banks and the
institutions that would suggest that they're community banks, but they're really much different in orientation and business model to Roxboro Savings Bank.

And we've been pleased. We've had a very positive reception the last few years. We have enjoyed profits that exceed budget, and the business model works. It is not a means for exponential growth, but that is not our objective. We're looking for sustainable growth and thus far we've been able to achieve it here recently.

Our directors have supported management's strategic initiatives and authorized investment in a new digital banking platform, online mortgage and consumer applications, an overhaul of our core system and our hardware, software, a complete infrastructure improvement initiative.

And we think that that is going to be the foundation for our success in banking the next generation of customers in our market, but we are very intent upon not changing the mode in which we
do business. We have no intent to discourage the one-on-one customer interaction relationship building experience that we think is really the root of our success.

We are fortunate to be in a healthy market. We are certainly benefitting from the growth in the Triangle. There's a lot of migration to our part of the country from some other states.

And as housing prices are increasing and the cost of living is increasing in the more metropolitan areas, the rural areas by extension are starting to see development and starting to benefit. And we are enjoying that experience.

Through the first quarter, or nearly through the first quarter, our loan production has reached almost 40 percent of our annual goal. So we are really not seeing a slowdown.

Housing prices year-over-year are up 3 1/2 percent. And just to give you some context there, the last few years housing prices have been up 5, 6, 7 percent. So that's 3 and a half percent on the heels of a few years of really
solid growth.

Unemployment in Person County is at 3.9
percent, and we are part of the Durham MSA and
unemployment for the MSA is at 3.3 percent. Near
record lows. So we're pleased.

We are primarily a housing lender.
Most of our portfolio is comprised of mortgage
loans. We originate and sell to Fannie Mae. We
have a portfolio of about $48 million that we
service.

That servicing income is certainly a
valuable source of non-interest income. But more
importantly perhaps is the retention of that
relationship so that we can continue to serve that
customer. That base is valuable in terms of
cultivating new deposit relationships,
originating home equity lines of credit, and then
when and as rates fall, people move into new homes
and so forth it's sort of a customer base that we
can count on for recurring business.

So we are anxious about any reform of
the GSEs. I know that's a topic of conversation
on Capitol Hill and with the change in leadership at the Federal Housing Finance Agency.

We are certainly hoping that small institutions such as ours will continue to have equal access to fair pricing and that their mandates won't change even if their private-public ownership structure changes.

A couple of other challenges that we see as we look forward. Congressman Ted Budd in North Carolina has been gathering feedback, and he's expressed some concerns about CECL.

And in trying to provide him some meaningful feedback, we did a little bit of research, and granted this is over the course of probably 18 months, but we have participated in two full-day workshops, four webinars, two meetings with our ALLL software vendor, three internal committee meetings and countless hours spent in side conversation reading articles and white papers and so forth all in an effort to try to ready ourselves.

And based on our participation, the
chief credit officer attended a workshop just last month and found that we were a little further along than some of our peers.

And we're fortunate that we don't have to adopt the standard until the second round because we're not publicly traded as a mutual.

But nevertheless we are concerned with the cost and time that we have had to invest and anticipate investing going forward.

We're a small bank. We have 30 employees. And any time that our chief lending officer, myself, any of the other lenders have to spend on this project if you will, that is time that we are not able to devote to the customers that we want to be serving. So that's a concern.

And the seven different types of methodology that are there for the choosing. It is nice to have options and I know that the creators did not want to prescribe a particular methodology for calculating your reserve, but with so many choices we can't help but wonder if each time we have a new examiner or auditor come through they're
going to question our choice. And it will just
take some time to help them understand.

And then with the future forecasting,
you know, the Federal Reserve is struggling to
determine where the economy is going, what the
appropriate course of action is going to be, and
needless to say their resources far exceed ours.

So we're not eager to begin playing
economist and a little concerned with how that may
play out.

We think that we can provide some
meaningful feedback if given the opportunity. And
this is a great forum for that in that we have an
abundance of capital really that's been
accumulated over the 96 years of our existence.

So we're not concerned with a one-time
capital event to bolster our provision, although
there's certainly other things we'd rather deploy
that capital for. But we're just concerned with
the time it's going to take to run those
calculations and then our ability to justify our
approach and how we've gone about that. So,
something else we are concerned with.

We are seeing in our market a bit of a relaxing of credit standards and what I would consider a lack of discipline.

In particular, there's a credit union with some significant market share offering 100 percent financing for homebuyers. They do not have to be first-time homebuyers. They do not have to be low-to-moderate income buyers.

They will finance 100 percent of cost and closing costs I might add and are also beginning to originate equity lines at 100 percent loan to value. And as you can imagine, it's a challenge to compete with that.

We're not going to compete for that high loan-to-value business, but we are no doubt going to lose and continue to lose some market share to that particular credit union.

And then we have a couple of other credit unions who are fancying themselves as commercial banks if you will and are doing some – what we would consider - commercial lending. So
that's a challenge.

But with that said, we have just in the last 60 days had three -- a warehouse and two industrial buildings that have sold and two of the buyers we had an opportunity to finance and they're making significant investments in the improvements to these facilities. And that is really a good sign.

We have not thus far seen any slowdown in our local economy, and we feel fortunate as a result. Thank you for the opportunity to be here.

MEMBER BESHEAR: My name is Dick Beshear. I'm president and CEO of First Security Bank in Oklahoma City.

I want to thank the chairman and Chad Davis for inviting me here today. I can't tell you how honored I am to be here. I am new on the committee and when I first got the phone call I thought back to my old boss and mentor Morrison Tucker who was one of the first employees of the FDIC in the early thirties.

And he would always tell me stories
about the FDIC, how it got started and the things
that he did. One of his accomplishments was
writing the first examination manual, or
developing the first examination manual.

CHAIRMAN MCWILLIAMS: Now I know who to
blame.

(Laughter)

MEMBER BESHEAR: That's exactly right.
But I've listened to everybody here. One of the
things I have struggled with is comments on what
would be meaningful to the group.

And much as Mr. Tucker passed the bank
on to me I'm kind of at the end of my career and
I can just probably sum up -- any banking is hard,
but it's the most rewarding career I think I ever
could have had.

We are a $50 million bank in Oklahoma
City. Oklahoma City's economy is doing rather
well.

We serve an underserved community, a
low-income community. And that community has --
its fortunes have not risen the same level that
everybody else's has.

We are in the process of transitioning from a day-to-day management and ownership to where we became certified as a minority depository institution last year.

We're very excited about the opportunities that would potentially provide for us.

We are also or I am also very excited about the new group of bankers that we're bringing on and the new ideas, the new viewpoints that they have.

Instead of waiting for outside developers to come in and redevelop northeast Oklahoma City a block at a time they have engaged with the community and are looking at incremental development finance and trying to maybe redevelop a storefront at a time.

And so I think at least in our case community banking northeast is in good hands in the future.

Again I agree with everything my
brother and sister community bankers have said. There's lots of challenges out there, but I am honored to be amongst you all. And I'll wrap up my comments.

CHAIRMAN MCWILLIAMS: It's an honor to have you truly. Thank you.

MEMBER BESHEAR: Thank you.

MEMBER KIMBELL: Good morning. My name is Bruce Kimbell, First Community Bank of the Heartland in Clinton, Kentucky.

I'm also new on the committee and looking forward to serving and have really enjoyed listening to everyone as we worked our way around the table and around the country.

So last night at the reception, Chairman McWilliams said something about she wanted people from the middle and so that's where we are.

I just found out a while ago my friend here from Minnesota is at the headwaters of the Mississippi River and we're about halfway to New Orleans. So we have the confluence of the Ohio and
the Mississippi as they come together.

So we're an ag bank. We have seven locations. We're about $225 million. Extreme western Kentucky and northwest Tennessee.

We found I guess our uniqueness in trying to fill that community bank niche as we've looked for communities and for areas to serve that maybe have a regional bank presence or have a little bit larger bank presence and we try to come back into that area and to bring more of a community bank perspective into that working with our customers and working with our borrowers.

Probably one of, if not the only, ag bank in the group. We're about 65 percent of our business is ag based, conventional cropping - corn, wheat, soybeans, poultry, swine, you name it, we do it.

We're big users of the USDA guarantee programs to help us.

Our farmers are going through a little bit of a struggle right now. The last two years have not been the friendliest. Prices are down,
commodity prices are down and crops necessarily the last year weren't the best because of some weather conditions.

But beginning to see some struggles there. But I've been blessed. This will be my 30th year at the bank and I've seen the good times and I've seen the bad times. And so we'll continue to go through those and we'll continue to serve through those.

My board always looks at me and wants me to -- they want us to remain relevant to the marketplace and that's what we try to do. We try our best to bring everything that all of you from the big city, we try to bring it to the country. And that's always been our goal is to try that, to know our markets.

We live there. We've really tried to focus on having good local bankers serve the communities. And we know how important that is for people to live and to, in turn, work there. And so we find that just imperative for our success. We've been blessed over the last five
years to have a couple of acquisitions and to grow the bank to the present level that we're at right now.

But we too know that we have to continue to do that. That's just a must these days.

So we look forward, I look forward to hearing the conversations from around the table. But it's -- the great thing about rural America is it doesn't change that much. But that's also sometimes that's its worst too, it doesn't change that much. There's not a lot of growth there.

And so we always have to try to find those opportunities to expedite that and to help that as much as we can.

Where we're located is a town of 1,000 people. We have 25 jobs. We provide 25 jobs in that town. And that's an important factor that I think sometimes gets forgotten in our consolidation world and in our merger world is those jobs disappear.

If we were to sell tomorrow, there's no doubt in my mind that that 25 would probably become
6 or 7. And our little town can't afford to lose those jobs.

And so our plan is to stay local and to stay there and to keep pushing the community bank piece.

Thank you for putting us on the committee. Lots of good small banks in the room today. And I enjoy seeing that. Thank you very much.

CHAIRMAN MCWILLIAMS: Thank you.

MEMBER SHETTLESWORTH: Alan Shettlesworth, Main Bank, Albuquerque, New Mexico, $142 million in assets.

We mostly serve the small, medium-sized commercial businesses and commercial real estate-related entities. Our average loan size is less than half a million dollars so we don't really play in the very big space.

Economically speaking, the state is doing great. This is the first time since I can remember the state actually has a surplus because of the oil-and-gas holdings at the state level.
Keep in mind, that's a projected surplus and so if oil and gas stay fine, we're good. If they go down, then God help us.

And our legislature just finished a 60-day session, and they passed a lot of laws and one of those was an increase in our state income tax for this year, and so I fail to see how that's going to help promote business relocating to New Mexico but those are the challenges we have.

There's a lot of opportunity, a lot of potential in New Mexico and the economy is doing fine. We're jealous of our neighbors though from Arizona, Colorado, and Texas. They all seem to be doing a whole lot better but you know, everything is basically green lights for us.

I'm starting this meeting a whole lot more ticked off than I had been in a while. We just had another institution this month sell that was based in New Mexico and so that will make four institutions that we have lost in the last 15 months.

That's incredibly frustrating because
when institutions come and acquire -- or when outside institutions come and acquire New Mexico banks they're not doing it for the lending, they're doing it for the deposits to loan elsewhere and that really ticks me off.

As a competitor, that's a fantastic story so I appreciate it. We don't even have to be that good, and they will just send business to us because of their out-of-state decisions.

So that is very frustrating though because I think by March now we'll be down to 35 banks and that number is continuing to decrease and so that's really frustrating.

A lot of the same comments here in the room, but I will say in the last two months some fascinating things have occurred in the rate side.

The first fascinating thing is literally two months ago for the first time in our 13-year history I have seen Wells Fargo as one of the high rate payers in some CDs. That's never happened before.

And so in the interest of talking about
FDIC cap on interest rates that banks can pay that's the first time I've seen it. It's usually credit unions that are on the top there and so now Wells Fargo is there which is just fascinating because you can obviously see now finally they may be getting some negative impact or be having some challenges with their public nightmare they're dealing with.

The other thing is loan rates. The bottom fell out for loan rates. And so we're having this pressure on cost of funds going up.

And in the last I'll say six to eight weeks we have seen loan rates drop to rates that I didn't think we were going to see before.

I am either glad or sad, I'll tell you in two years, to report that we competed in a deal and won it. Our rate is pretty dang near 4 percent which I never thought we'd see that again. That's a one-off kind of anomaly.

I lost a deal this week which is another complete anomaly, let's say six or seven hundred thousand dollar loan. Nice credit. I thought the
pricing would be in the fives, and we lost it to a big bank, one of Brand X banks, and their rate's like 4.7 or something like that, fixed for 10 years, 20 amortization. So it's pricing is really aggressive all of a sudden. So that just tells me there's a lot of banks out there, a lot of institutions looking for money and looking for some type of yield and loans are where they're going to get it because you can't really get it anywhere else.

And so it's scary but also exciting because the community bank model is a very successful model. But that's real-time stuff that we're dealing with right now. So we are seeing both cost of funds go up and loan and earning asset yields go down. So it will be an exciting year. So thank you.

MEMBER WILLIAMS: I'm Len Williams from Utah. We're a little bank that's headquartered about 30 minutes south of Salt Lake, but we do have operations in a larger market as well.
We've actually got branches throughout the state. We're about $2.2 billion in total assets with 25 branches.

It's been a good run. Utah is today the fourth fastest growing economy in the nation. Continues to grow. Technology is the fastest growing sector right now. A lot of that has to do with the California costs. So we've had a lot of major players move into the market that's really lifted the economy for us, the higher paying jobs back into the market. It's been a good run.

There's also a lot of infrastructure being built. If anyone's been through the Salt Lake airport lately, they're doubling their size, relocating just about everything.

They've also created a new -- what they call the creation of an inland port which is kind of an intermodal transportation hub. A lot of warehouses. Another major Amazon warehouse there as well as others.

As far as us, I mentioned it's been a good economy for a long period of time. This
organization has been around 105 years and focused predominantly in the past on real estate.

Over the last year, we've actually diversified quite a bit and brought some of those concentrations down. So we had a good year from an earnings perspective. It's a healthy market.

I've worked in a lot of different markets, and Utah is probably one of the markets that I would say is not overbanked which is a little bit unusual. So margins continue to hold up pretty well for us.

Our net interest margin is around 530, so it's a big number for a community bank. And we were again a good year so we've been fortifying the balance sheet to be ready when things turn. But we're sitting on about 12.2 percent capital and getting a 14 percent return on that.

As managing a loan book is kind of like going to the airport, right? It's better to be two hours early than five minutes late.

So as we continue to be cautious as we go and try to conserve and preserve some capital
for acquisitions and such.

It's been good but there's still a little nervousness having been in the business for 42 years.

The reason I asked the question earlier on what type of de novos are you getting was -- it wasn't a trick question. I just, that's a tough business case, it really is. Low margins starting up in some of the markets.

And we're seeing a lot of the cost to develop products and services. For example, I did some research recently and Chase in 2016, their technology budget was $9.5 billion. How do you compete with that, right?

So the only way we can see is finding really good partnerships, the right fin tech partnerships, the right technology partnerships. And I think that's probably even an area for the FDIC.

As you're moving ahead historically losses in credit costs, bank problems have been driven by credit costs and a little bit of fraud.
I think the technology partnerships are going to be something that -- to pay attention. And even some guidance would be helpful for people like us in this business.

I think there's -- the CECL impact may be a little bit more than some think. Our average loan tenure is only 1.2 years, and our reserve's still going to go up a little bit as we move forward.

So times are good. Still proceeding cautiously. And to get to lunch on time that's all I've got.

MEMBER PAINE: I'm Tiffany Paine from Security Bank in Bemidji, Minnesota. That's Bemidji. If you read it, you might come up with a different pronunciation.

We come from a small town, 14,000. About 20 miles out it's about 50,000. Ten financial institutions. We just had our CRA exam. Actually they said there's 10 or 12 in our service area. I don't know where the other two are hiding. I'm not exactly sure.

Very interesting. We actually happen
to be a hub for the northwest region of Minnesota.
So we're doing well.

We have 750 jobs, mid- to high-level jobs coming in in the next four years. Whether it's the hospital, Delta Dental Insurance has moved a center to us, and then the university is expanding as well. The university, a technical college, arts community, great, thriving business community, wonderful.

A lot of the communities around us are having challenges. Their banks are selling. I can tell you of four banks if you look at the numbers in Minnesota the banks, community banks are going down and we have a lot of community banks in our state.

It's where Independent Community Banking of America started in Minnesota. So it's sad. It's sad that we're losing a lot of the $50 million banks because they can't cost justify running a business with 10 employees and being the compliance experts and the audit experts and all of these different things.
So we have, and I know there was notice that went out talking about sharing of services. And we do share services. We have for the last seven or eight years with other banks that are in towns of 500 people or 700 people where they're $25 million banks or $50 million banks.

We've co-oped some of our audit and compliance services. So that works out well for them.

And then we also lead participations for those areas because they don't have the loan demand. How many loans can 500 people have?

So we're seeing some struggle in those areas and banks pulling out of those communities. If US Bank throws in an ATM that takes deposits, it's not really a bank.

So it is a challenge in those communities for us to try to help them out and figure out their needs.

Locally what we're seeing is we have about -- a range of $12 to $15 million between four or five customers that we had to create repurchase
accounts for, right.

And I know I brought this up before, but they have their auditors telling them that they have to move money out of our bank because it's only $250,000 insurance.

So we are 100 percent loans to deposit, 95 to 100 percent. So we don't have a huge investment portfolio to offset these repurchase accounts. So the reciprocal deposit movement has been very beneficial to us.

But I do think that it is something that maybe we can revisit on the FDIC level about the dollar amount of the insurance for those border customers and doing an analysis on that.

We unfortunately -- well, we had a lot of snow this winter. We had a lot of cold this winter. So we have fellow and neighboring communities, we're actually on sand base so we're not really -- no flood zones in our area.

But you get about 45 minutes west of us and they're going to see problems. So we are already seeing people moving towards sandbagging
and getting emergency preparations ready for them.
So we know that the Grand Forks and Fargo area, that
Red River Valley area is probably going to see some
issues. Obviously we know Nebraska is having some
challenges now. So we need to make sure that we're
working with our neighboring businesses.

I will not take up any more time. Thank
you very much. You all did a great job.

CHAIRMAN MCWILLIAMS: Thank you,
Tiffany.

MEMBER DONNELLY: Being last and
hopefully not least, I'll be very brief so we can
get to lunch. And I don't want to be holding up
anybody from lunch. The only thing that would be
worse is holding you up from a bar.

I'm Chris Donnelly, I'm president and
CEO of Bank of the Prairie in Olathe, Kansas.
Olathe is a southwest suburb of Kansas City,
Missouri MSA.

In general, the economy is good.
Unemployment has been below 3 percent for some time
now. We actually touched 2.5 percent.
We do have the same issues everybody else has. Deposits are difficult to come by. We are losing loans because of rates. If you pushed close to 6 percent, the customer is not going to be around. So those are difficult items.

We don't have much ag in the suburbs, but the ag economy is still struggling in Kansas. Our one farmer that we do have is quite large. Fortunately he has real estate that's in the metro so it helps a lot.

And just closing to get to lunch -- Louise, if you do have people that want to move out of the Bay Area, we have all the rural, over 70,000 square miles of rural in Kansas.

And Bruce, I'm 252 miles away from the geographic center of the United States in Lebanon, Kansas, and that's 252 miles from Kansas City and that's only halfway across Kansas.

You’re welcome to come out. Louise, we’ll take all you can send. I will wait until this afternoon for more comments.

CHAIRMAN MCWILLIAMS: Thank you,
MR. DAVIS: Well, it is 10 after 12 so I'm going to suggest we go ahead and break for lunch. If we can start right at 1, there's a couple of segments I'm going to try and work into the afternoon without delaying anybody too much.

But great discussion and see everybody at 1 o'clock.

(Whereupon, the above-entitled matter went off the record at 12:10 p.m. and resumed at 1:07 p.m.)

MR. DAVIS: So welcome back. We're now going to provide the committee with an update on several supervisory issues. Since we have a number of presenters for the session I guess we -- we have everybody here.

We'll break it up into two groups, first from Division of Risk Management. We have Doreen Eberley, the director; Rae-Ann Miller, an associate director who oversees the risk management policy area; Robert Storch, the FDIC's chief accountant; and Ryan Billingsley, a
I'll now turn the program over to Doreen.

MS. EBERLEY: Okay.

CHAIRMAN MCWILLIAMS: Doreen, can I say something?

MS. EBERLEY: Certainly.

CHAIRMAN MCWILLIAMS: So I just want you to know, everybody here, that this is our supervisory -- this is our risk management division and our supervisory staff.

I think -- and I have to apologize to the staff. I have asked them to work so hard since I came here. I don't know if they've gotten any sleep. But I've always said open up any guidance, open up any rulemaking, tell me why we're doing it the way we're doing it. If we haven't touched this for 20 years, absolutely open it up. If we haven't touched it in two or three years, open it up.

And I just -- kudos to you. You have gone above and beyond the task in opening up everything and taking a look. And I seriously
don't know when you slept for the last 10 months, but I appreciate it.

So this is a team that's done a lot of that work. Thank you.

MS. EBERLEY: Thank you. All right, so for our first panel on supervision this afternoon, Rae-Ann's going to talk about the reciprocal deposit rulemaking which was issued last December.

She's also going to cover the advanced notice of proposed rulemaking that we issued at the same time which sought comments on all aspects of the brokered deposit and interest rate restriction regulations.

Bob's going to cover some recent call report revisions and proposed call report changes. He's going to talk a little bit about some of the things that we're working on related to CECL implementation.

And then Ryan's going to address the community bank leverage ratio.

So I think all of these things were
brought up this morning, and so this is your opportunity to engage with the folks that are writing the rulemakings and working on these issues and can answer any questions for you. So, Rae-Ann.

MS. MILLER: Thanks very much. I'm just going to talk a little bit about the deposit areas that Doreen mentioned.

So we finalized our regulation to conform with changes in we call it S-2155. I can never remember the full name of the law. It's long.

But basically to conform our regulations to the law.

And basically the upshot of it is that most reciprocal deposits will no longer have to be reported as brokered deposits on the call reports.

So there are two limitations to that reporting. First of all, there's a general cap. So institutions that are well capitalized and have a composite condition of outstanding or good which corresponds to CAMELS ratings of 1 or 2 generally as of their last exam, or that have not obtained
a waiver from the FDIC may except from being reported as brokered deposits qualifying reciprocals up to this general cap of 20 percent of the institution's liabilities or $5 billion, whichever is less of those two.

And then the law and the regulation provide for a special cap for institutions that are not well capitalized and not in outstanding or good condition.

They may except qualifying reciprocal deposits up to a special cap which is the lesser of either the general cap or the average of reciprocal deposits held during the last four quarters since the institution was well capitalized and in outstanding or good condition.

So there's a little bit of calculations involved if the institution falls below.

So there are some other limitations to be cognizant of in the law and the regulation and that is less than well capitalized institutions that do have the exception are still subject to statutory interest rate restrictions on all
deposits, including reciprocal deposits not reported as brokered. That's a continuation of section 29 of the law.

The exempted deposit can't consist of funds obtained for the institution directly or indirectly by or through a deposit broker before submission of placement into the deposit placement network. So that's the change there.

We also talked about in December we issued an advanced notice of proposed rulemaking with our final regulation on reciprocals. And the ANPR is much broader.

And in that ANPR we have a lot of data and information and we asked for comments on all aspects of our brokered deposit regulation. The comment period is open through May 7, 2019.

While we asked for comments on everything, we are particularly interested in issues related to sweep deposits, deposit listing services, the statutory exceptions that are set forth and how we have interpreted those statutory exceptions, particularly the primary purpose
exception.

We talk a little bit about software products, prepaid cards, some things that weren't necessarily around when section 29 was first put on the books.

And we also talk about the definition of the national rate. I know we have some new members here, but we did have a presentation on that I think at the last meeting.

And specific questions in the ANPR talk about classification of deposit brokers and brokered deposits and our interpretation of the law, how we've applied it as well as the calculation on the rate restrictions.

So again we encourage -- we've received about a dozen comments so far, but as you know with these things they usually come in on the last day. So we are encouraging everybody to comment, and we'll take it from there and see what further changes we might want to make to our regulations.

So with that, that's all I had, Doreen.

MS. EBERLEY: Okay. Any questions for

The rate cap, that's a national rate cap. Has there been consideration to a regional rate cap?

Earlier my colleagues all made comments, and we heard in varying markets the deposit rates are at varying levels. Of course we heard the same thing on the loan side. There's obviously correlation.

So that's maybe something worth considering.

MS. MILLER: Yes, I think that's certainly worth putting in a comment on.

We've considered a number of different aspects. The national rate is I believe set forth -- and I don't have my lawyer with me -- set forth in the law or prevailing market.

And the way we've interpreted prevailing market is a local market rate
determination. So in those instances where -- sometimes we call it the community bank exception.

In those instances where a bank falls below well capitalized, they can come to us for a local rate determination rather than having the national rate apply. So there is a provision for that.

The difficulties with -- although I'd be interested in hearing your views and reviewing and thinking them through.

But the difficulties of having multiple caps is there's a balance between simplicity and bright lines and fair treatment. So trying to strike that balance.

MEMBER HANRAHAN: Rae-Ann, I want to say thank you for listening to the comment that I and a few others made about the issue of de novos' ability to enter into reciprocal deposits, and they have to be deemed brokered for a while until they have the first exam and they're well rated and all that.

And while I could tell you we're
-constrained by the law from what we can do, I felt
like you created at least a pathway for a de novo
to deal with that.

So, a corollary question I have for that
is -- and I'm going to half look at you and half
at Jim Watkins in the back row who made the de novo
presentation this morning.

Given that if a de novo wants to enter
into reciprocal deposits which for the reasons I
set forth in my comment letter I think are -- they
tend to be really good, local sticky deposits.

Is it plausible that a de novo could put
in its business plan that it's going to do so,
acknowledging that they're going to be deemed to
be brokered deposits for the first year, year and
a half, whatever of their existence?

MS. EBERLEY: Yes.

MEMBER HANRAHAN: Thank you.

MEMBER DONNELLY: If I may, Rae-Ann,
thank you. And I'm just looking over my comments.
I see a typo in the comments.

MS. MILLER: I noticed that, Chris.
(Laughter)

CHAIRMAN MCWILLIAMS: Chris, how do you think you ended up at the very end?

(Laughter)

MEMBER DONNELLY: The technical piece of being regional, I'm a bank with two locations in the same city. That's it.

And I sent in with my comments a local rate. You can clearly see the differential, what I'm competing against. And I don't know what the technical or the mechanical piece of trying to separate our markets and rates.

I know that's probably impactive to the FDIC, but it's pretty impactive to a local bank who when you're using a completely different rate that may not even be close.

So I guess, I think that's a really important thing to consider. And I don't know what the math needs to be for regional people, gather your data for you, or how you gather that data.

But I did the research, and it's really clear that the numbers and who makes up the pool
of people that make up the average.

I kind of want to hear on what do you see in the market because now not only am I competing against every credit union in Kansas City, I'm also competing against hundreds of online people that are bombarding me with advertising for deposit rates that are way beyond what the market and what the rate cap is.

So have you looked at what the change in the environment has done for that? I hope that makes sense.

MS. MILLER: So yes. We changed the peg the last time in 2009 because of those changes in the market. We actually had a way of gathering data that wasn't envisioned in 1989 and 1991 when the law first came on the books and was revised.

So we get the data actually from a third-party source and crunch it that way. That's not the only way to get the data, but that's what we do.

I was sort of referring to the difficulties of maintaining multiple -- well first
of all, like I said, I have to go back and look, but I'm almost positive the law requires us -- it does require us to set a national rate.

But to have and keep up with multiple rates and know which one would be applicable to you is very difficult. So the law provided a pretty flexible avenue for us that's worked pretty well for when a bank gets in trouble is to apply for this local rate determination.

For you, you might have two distinct markets, and we would react to those two distinct markets. I'm not sure if that's how it works in your area.

But again, we've got this ANPR. It's wide open. We're taking on all ideas, all comers. No matter where you set the peg is never perfect, or a peg, or multiple pegs is never going to be perfect.

The fact of the matter is rate restrictions are restrictions for a reason and they kick in when institutions become troubled. And so they're not meant to be a big benefit, but we want
a balance between being punitive and being reasonable in those instances.

Working on all different aspects and looking forward to your comments. And without typos.

(Laughter)

MR. STORCH: Thank you. Good afternoon. As Doreen mentioned I'd like to touch on a few recent developments related to accounting and regulatory reporting for you this afternoon.

As you're aware, the banking industry and the banking agencies get closer every month to the effective date of the FASB's accounting standard on credit losses which introduces the current expected credit losses or CECL methodology.

The earliest mandatory effective date is nine months away on January 1, 2020 for so-called SEC filers, but early adoption of the standard is permitted in the first quarter of this year.

In response to the accounting change, the agencies under the auspices of the FFIEC have
finalized a number of revisions to the call report to accommodate the CECL methodology and a separate change in credit loss accounting for available-for-sale debt securities.

These revisions were announced in a financial institution letter from the FFIEC in early March which is included in your materials for this meeting.

Because the FASB's credit losses accounting standard includes different effective dates for three categories of institutions depending on their characteristics and includes this year's early adoption option, the changes to the call report begin to take effect as of March 31, 2019, but will not be fully phased in until year-end 2022.

For example, you'll begin to notice gradual changes in terminology in the call report as the allowance for loan and lease losses becomes the allowance for credit losses on loans and leases, and after an institution adopts the new accounting, there also will be allowances for
credit losses on held-to-maturity debt securities and on available-for-sale debt securities.

Because of the different effective dates for different institutions, the call report forms through the use of footnotes in the call report instructions will address which accounting terms and which call report data items are applicable to which institutions during the period the industry transitions to the new accounting standard.

Although these call report revisions will start to appear in the first quarter 2019 call report, we're not suggesting that an institution is required to adopt the CECL methodology any sooner than the effective date that applies to the institution under the accounting standard.

The call report changes taking effect this quarter also relate to the agency's recent final rule that provides for an optional three-year phase-in of the initial or day-one impact on regulatory capital of adopting the CECL methodology.
The call report regulatory capital schedule will include a new yes/no item for which an institution that has adopted CECL will indicate whether it has a CECL transition election in effect as of the quarter-end report date.

If so, the form and instructions will explain where the various transitional amounts should be included in the regulatory capital schedule during the three-year phase-in period.

These transitional amounts only affect regulatory capital and not the amounts the institution that has adopted the new credit losses accounting standard reports on the call report balance sheet and income statement.

As Ryan Billingsley will be discussing, the agencies have issued a proposal for an optional community bank leverage ratio or CBLR for qualifying institutions.

The agency's notice of proposed rulemaking included for illustrative purposes a potential reporting format for a CBLR reporting schedule that could be included in the call report.
The banking agencies’ capital policy staffs working with the FFIEC's task force on reports have been developing a proposed one-page CBLR reporting schedule that we expect to issue for comment within a few weeks.

The comment period for this call report CBLR proposal will be separate from the comment period for the proposed CBLR rule itself so I was asked to briefly explain the process the banking agencies go through under the Paperwork Reduction Act or PRA to implement the CBLR reporting schedule as part of the call report.

As the first step in the process, once all necessary senior management approvals have been obtained, the agencies will publish a Federal Register notice for the proposed CBLR reporting schedule and related deposit insurance assessment revisions to the call report for a 60-day public comment period.

The FFIEC will notify all reporting institutions about this proposal and encourage institutions to comment on it in a financial
institution letter that the FDIC will distribute.

A sample of the proposed CBLR reporting schedule and draft instructions will be available on the FFIEC's website during the comment period to assist you in understanding the proposal and preparing your comments.

At the end of the comment period, the FFIEC and the agencies will review the comments to determine whether the proposed CBLR revisions to the call report should be modified in response to comments, but also to align the CBLR revisions with the final rule on the community bank leverage ratio and the related assessment revisions.

As required by the PRA, the agencies will then publish a second Federal Register notice on the reporting revisions for a 30-day comment period and submit the final revisions to the call report to the U.S. Office of Management and Budget or OMB for review and approval.

The second Federal Register notice describing the CBLR reporting requirements cannot be published until the final rule for the CBLR
The final CBLR reporting requirements would take effect the same quarter as the effective date of the final rule on the community bank leverage ratio, and institutions would be notified about the final reporting changes to implement the CBLR and the call report in a financial institution letter from the FFIEC.

Let me turn back now to the FASB's credit losses accounting standard. Since the standard was issued in June 2016, the agencies first issued a joint statement on the standard that same month and then in December of 2016 and September of 2017 we issued frequently asked questions or FAQs on the standard with a 2017 document incorporating the FAQs originally issued in 2016.

The focus of these FAQs is on the application of CECL and other aspects of the new accounting standard as well as related supervisory expectations.

The agencies have developed some
additional FAQs which we have combined into a single document with the existing FAQs, and we expect to issue this expanded set of FAQs very soon.

In the latest FAQs document, the agencies have updated the responses to three previously issued questions that are affected by the FASB's November 2018 amendment to the effective date of the standard for those institutions that are not public business entities to reflect this new effective date of the standard for these non-PBEs in the responses to those three questions.

This effective date amendment means that non-PBEs as they're called that have a calendar year fiscal year would begin reporting credit losses under CECL in the first quarter of 2022, rather than in the fourth quarter of 2021.

The new FAQs document also includes minor technical and editorial changes to certain previously issued FAQs.

It will also signal that the agencies plan to issue proposed supervisory guidance on the allowance for credit losses under CECL before year
end.

This supervisory guidance when finalized would replace the agencies’ 2001 and 2006 allowance policy statements for institutions as they adopt the new accounting standard over time.

Until then, each institution should continue to follow current U.S. GAAP on impairment and the allowance for loan and lease losses, and to refer to those two existing allowance policy statements.

Finally, the banking agencies will be hosting an interagency webinar for bankers on the weighted average remaining maturity or WARM method for estimating allowances for credit losses on Thursday, April 11 from 2 to 3:30 p.m. Eastern time.

As with the two interagency banker webinars on CECL that the agencies conducted in 2018, representatives from the FASB, the U.S. Securities and Exchange Commission, and the Conference of State Bank Supervisors will also be participating in this webinar.

Because of questions that have been
posed to the FASB, the FASB issued a staff question-and-answer document in January 2019 confirming that the WARM method is one of many acceptable methods that can be used to estimate allowances for credit losses for less-complex financial asset pools under CECL.

That FASB staff Q&A document is available on the FASB's website and its text is consistent with information the agencies communicated in their February 2018 banker webinar that discussed practical examples of how smaller, less-complex community banks can implement CECL.

Institutions that participated in a previous CECL webinar may already have received registration information about this upcoming April 11 webinar from the Federal Reserve whose facilities are used for these events.

The FDIC will be sending a financial institution letter to all of our supervised institutions about the webinar in a few days.

Thank you and I look forward to your comments and questions.
MEMBER EPSTEIN: May I make a comment please? The first comment is back in 2017 I believe, and there have been subsequent webinars, but I think that was the first that we had an opportunity to participate in and perhaps the first that you offered.

It was very informative, and we have sent emails since to the designated site for questions and the responses have come promptly and have been very concise and easy to interpret. So I appreciate that. There may be more questions forthcoming.

The other question I have is has the FDIC made any attempt to estimate how the average, I guess, provision will be affected across the industry. How many millions or billions or tens of billions of dollars do you all anticipate will have to be added to the reserve?

It sounds like there's pretty much consensus agreement that most banks if not all will need to increase their allowance. Is that your finding?
MR. STORCH: You're correct that the expectation is that most banks would have to increase their allowances because the new model is forward looking and it looks at losses over the expected -- the lifetime of contractual term of loans and maturity debt securities and then the modification to available for sale.

So the expectation is except perhaps for the very shortest term loans there would need to be an increase.

There's no real good way of forecasting that I know what the overall effect would be because it's going to depend on the composition of each bank's portfolio and the underwriting practices they use, what their allowance levels are going into the effective date and also what the forecasts are for the credit risk drivers that are key factors in estimating collectability.

So what the agencies have done since we can't really come up with an overall estimate is do some what I would call sensitivity analysis where we look at, okay, if institutions had to
increase their allowances by 10 percent, by 25 percent, by 50 percent even going up to 100 percent, which we don't think is likely, early numbers we're hearing because of state of the economy right now is not a very huge increase, a smaller increase than may have originally been anticipated.

Looking at those numbers the effect on capital ratios, of course not knowing what's actually going to happen between now and the effective date, only a small number of institutions really have any material problem, particularly in PCA categories.

So that at least gives some comfort that it shouldn't have an adverse effect on the industry as a whole. That's the type of analysis we've been performing periodically as we get a new quarter's worth of call report data.

MEMBER EPSTEIN: One other question if I may. We use the FDIC state profile information on a quarterly basis as we work on our qualifications, the qualified adjustments rather.

But of course that's looking at prior
quarter trends in terms of asset quality and unemployment and bankruptcy filings and so forth.

Will there be any data forthcoming from the FDIC that we may be able to use as a resource as we do our forecasting?

MR. STORCH: We have been looking at that and I think some of the information at least we have been considering is several different Federal Reserve banks and so forth do some forecasting.

They may not be at the state level per se, it would be more for the Federal Reserve district and that may be a source to supplement the current condition type data that's maybe more readily available.

But sources like that that have a degree of credibility and are relevant to your particular portfolio, whatever key drivers you're looking at now, are likely to be the same drivers on a forward-looking basis. There may be some newer ones that come into play.

But information like that if there are
local or state government economic development authorities that may have those types of forecasts, local universities, the economics departments may have that type of information. So those types of sources particularly for community institutions where the information is more localized than certainly national would be reasonable sources of information to -- on which you can base the qualitative adjustments you might think are appropriate for your particular portfolios or subportfolios within the entire loan portfolio.

MEMBER EPSTEIN: Thank you for the suggestion.

MS. EBERLEY: Bob, one other question that came up this morning was just a concern that while there's an appreciation that there are lots of options in terms of the methods that may be used to calculate the allowance going forward, would examiners then have a preference for one methodology over another. So can you address how we will be training examiners and that it's the institution's choice?
MR. STORCH: Thank you. We have a training program, a multi-year training initiative that we have underway that takes us well into 2021 to get our examiners up to speed on understanding the standard and what our expectations should be.

The standard was designed to provide quite a bit of flexibility and scalability of institutions because the FASB recognized and we the agencies collectively pushed this way and I know community bankers as a whole did as well, that the standard needs to be operational regardless of the size of the institution and its complexity.

And that's why the standard doesn't have a single permissible approach. It allows various methods and to mention this WARM method isn't mentioned in the standard, but that's part of the reason why the FASB issued its Q&A document.

So, what we've tried to suggest even in the FAQs we've issued so far is that the choice of method is up to the institution. What is the best fit for your circumstances? Different methods may be appropriate for different parts of your
portfolio. It isn't necessarily the same method for every type of loan in your portfolio.

So that would be the expectation of these examiners as well that there's not one standard method that has to be applied by all institutions.

Each institution has the choice and assuming you've got good documentation and controls around the method you selected, the examiners, especially during the initial examinations should be looking at that and seeing how well you're doing with the method you've employed.

As we get more experience in looking at institutions, we may see some practices that look like they're out of bounds and not really within the confines of the standard and that's where I would think the examiners may raise concerns.

But we're going to need some experience with the standard before we'll be in a position to identify practices that may not quite be acceptable.
MEMBER WILLIAMS: Question for you, Bob. You mentioned the stated maturity and using that for the loss configuration.

That's quite a differential between a stated maturity on a 30-year mortgage versus an average life which is seven years or less and the reserve differential on that would be huge.

We've had some discussions with our auditors about that. The average life is where we're heading as long as we can document where that is.

My concern would be is if it was interpreted as stated maturity you're going to have banks playing with maturity dates. Put a two-year call on a mortgage loan because you can't reserve 30 years worth of hold back on it and those kind of things.

Any thoughts on or discussion going on on that kind of thing? Because we don't want that to happen.

MR. STORCH: The standard uses the term contractual term, but it makes it very clear that
you need to take into consideration expected prepayments. And residential mortgages with 30-year contractual terms are sort of the poster child for that.

So a very substantial portion may well pay off in 7 years, but based on experience you know that some are going to last 10, 12, maybe 1 or 2 actually 30 years.

But the predominant loss expectation would be for that prepayment-adjusted term. And at least the loss curves I've seen, most losses occur two to three to four years out and after that they really tail off.

And even with forecasting, you're not forecasting out 7 years or 30 years. It's a reasonable supportable forecast period. And then you revert to sort of your long-term average historical loss rate which again after three or four years is probably fairly low.

So that's the expectation in the standard and that's the message we'll be giving to examiners as well. And hopefully you're getting
consistent feedback on that from your auditors as well.

MEMBER WILLIAMS: It's been a little interesting. We switched auditors because we had a local group that wasn't a bank auditor and total differing opinions.

MEMBER DONNELLY: Just a question on documentation requirements. You mentioned documented, well documented. Somebody else talked about documentation.

What are the expectations at the field level, the exam level for documentation support, whatever methodology? I've got probably 100 people a week calling and saying I can give you this little simple spreadsheet that will work just fine. Well, I don't buy that.

So what -- to support my analysis what kind of documentation on the average life are you going to want to see and how much over time do we retain?

I see this -- from the calculation done it doesn't appear to be that difficult. The
documentation of the process seems to be -- I mean
2 years from now, or 18 months after you come back
in for an exam what do you need to see 18 months
ago that I had to make my assumptions as I bring
those things forward. I hope that makes sense.

I've been worried about documentation
for the calculation itself.

MR. STORCH: The 2001 allowance policy
statement that I mentioned focuses on
documentation. Of course that's under today's
incurred-loss methodology.

But most of the concepts in there about
the expectations for documentation would carry
forward to CECL.

And the other key element is that the
extent of documentation support really is tailored
to the size, the complexity, and risk profile of
the institution as well.

So for your institution the extent of
documentation is going to be a lot less than we'd
expect from a $100 billion or a $1 trillion
institution with a much more complex portfolio.
So in thinking about the new areas, the forward-looking information, the lifetime loss we look for documentation about how -- what your own experience is. If you're using internal data like on an annualized charge-off basis today perhaps for incurred loss, what are the numbers showing?

How did you demonstrate your estimate of what the contractual term would be? Either it's like the mortgage case we just talked about, or your commercial loans where they have a one- or two-year term. Is there much of a prepayment experience there?

The documentation for you as a community bank in that area would be not -- we wouldn't look to see as much. We'd look to see that you have something to support those.

For forward-looking information, just like with current conditions today, what objective data are you looking at? What bankruptcy statistics or unemployment statistics? If you're an ag lender what crop prices you're using?

And then where did you go to get the
forecast information and how did you interpolate it to make your qualitative adjustments?

For a smaller bank again perhaps just narrative explanation of how you looked at the forecast and objective data to translate that based on your experience and your experience with credit, how that translates into the qualitative adjustments you're making to the historical numbers.

So a narrative explanation which many smaller banks use today to explain how they got to their ending numbers for the allowance are just bringing in the additional inputs that are required in explaining where they came from and how you arrived at them. I think that's what we'll be looking for.

And to the extent we're putting out this updated supervisory guidance as a proposal, we'd be looking for industry comment.

So if we've gone overboard in any areas, or we haven't been clear enough in any areas about our expectations, that will be the opportunity to
provide us with input that we can take into consideration and make a better product for our own examiners and for you going forward.

CHAIRMAN MCWILLIAMS: Jim.

MEMBER EDWARDS: Jim Edwards with United Bank in Georgia.

Shifting back to the CBLR conversation, I'm curious if there are any continuing discussions about that, the 9 percent figures.

I understand that the legislation basically requires that the regulatory agencies find that level between 8 and 10.

And fortunately our bank would be able to qualify for this capital level under the new framework. But there are about another 25 banks in Georgia that could qualify if that ratio was 8 percent.

So I'm curious if there's any further conversation about that to allow additional banks to potentially be able to participate.

As I talk to bankers around the country, it's a much larger number than just the 25 in
Georgia that could potentially participate.

And because of the -- it also might encourage other banks to go ahead and opt for the new proposal and the regulatory relief that it provides if that minimum was lower, because you'd have a little more buffer there if you went into a downturn in terms of not having to deal with some of the let's just call them maybe more egregious PCA-type restrictions if you fall below that.

And I know there is a process for how you can opt out of it once you go into it, but that's not going to be a very easy process I think because you're going to have to sort of run two systems to be able to hop back onto the old program if you do that.

So just curious if there's continuing conversation about that at all and appreciate you letting me voice my concerns about it.

MR. STORCH: Might I suggest that Ryan cover that?

MR. BILLINGSLEY: Actually, I was listening this morning while I was working on other
things, and I heard a lot of comments over here about community bank leverage ratios so I'm prepared to take on those comments.

So, let me answer that question real quickly and then I'll get into my nuts and bolts.

So I think the answer to your question is are we considering things like that, the answer is yes. And that's just part of the deliberative process.

The comment period closes April 9. We're obviously right in the middle of that.

The comment you raised is something we've already actually received so I count -- this morning I took a count of the comments on our public website. I counted 162 comment letters, 9 unique letters. So the comment you made has already been -- we've already gotten that one. So we're already internalizing that one.

Since you mention it, I'll just jump right into it, the PCA issue you raised. The proposal lays out a -- so it's an optional framework, right.
So a bank may elect to use it and opt out at a later date. Separately, there is a PCA proxy framework that's proposed like you mentioned. So if you drop below 9, you can live in this alternative PCA framework or you can go back to risk-based.

I would view that as a bit of a key switch if you will. So you control the key. So at any bank if you see your ratio dropping to 10, 9 and a half, whatever, you might want to think about turning the key before you hit that category.

It's really designed to provide optionality. It's not intended to be penalizing so to speak. It's intended to provide optionality.

But we hear your point on the PCA framework and the level.

One other thing I would add is I would kind of look at the proposal as a package. So you're right to say that if you drop the ratio to 8, more banks can qualify. I think a letter we got from ICBA suggests that maybe 600 additional banks
nationwide are in that 8 to 9 range.

So they take into consideration other factors. Kind of look at the whole thing as a proposal. So there's other ways a bank may not qualify. They might trip other filters so to speak.

But fair comments and I think more to come on that.

I can go through the nuts and bolts of the proposal real quickly for those who might not be as familiar, but it sounds like you're very familiar with it.

MEMBER EDWARDS: It's a little complicated, so I'll be glad to hear you simplify it for me.

MR. BILLINGSLEY: Sure. So the NPR was issued in November. The comment period closes April 9. You should have about 10 slides or so in your deck that were part of a teleconference that the FDIC hosted in late December. Happy holidays.

I'm not going to go through those, but that's out there in the public domain. We used
that to host the webinar.

So, Jim just brought up the statutory range. It says we're supposed to establish this ratio between 8 and 10. Obviously we picked 9.

We had a little bit of discretion over how to define what is a qualifying community bank that maybe would like to use this.

And then we also had to develop procedures for what happens if you drop below 9. And that's sort of a PCA proxy opt-in/opt-out that Jim was referring to.

So for starters, it is an optional framework. We're envisioning this, like Bob mentioned, the way you would opt in is just to complete this one-page call report and that would be the mechanism that you would opt in to the framework.

As far as definition of a qualifying community bank goes, there's just a few factors that would make a bank qualifying.

Number one was given to us by the statute, total assets less than $10 billion. So
we took that one at face value.

We added a few more based upon what the statute directed us to consider. So one of those is -- I'll just go quickly through those.

One is off-balance sheet exposures of less than 25 percent of total assets. Total trading assets and liabilities of less than 5 percent of total assets.

Mortgage servicing assets of less than 25 percent of tangible equity. And certain DTAs, mainly the temporary difference DTAs, of less than 25 percent of tangible equity.

As far as the nuts and bolts of the ratio itself, we opted for simplicity. So in the numerator is this thing called community bank leverage ratio tangible equity. It's not tier 1, it's different than the existing capital framework. It's intended to be accounting based, very straightforward.

You can think of it as the equity block in your balance sheet, taking out intangibles, certain DTAs and neutralizing for AOCI. It's very
straightforward.

And then the denominator would be average assets just like we use today in your tier 1 leverage ratio.

So the idea is if the rule were final you could elect -- if you meet those criteria and you have a CBLR over 9 you could fill out this simplified call report and that would be the framework you would be in.

So I'll briefly touch on a few of the comments we've gotten so far.

There has been a preference for a lower ratio. Like Jim mentioned, there's been some advocacy for 8 percent.

There's been some concern about the introduction of the PCA proxies which Jim also raised.

And then the other comment we've gotten that I think has been fairly consistent thus far has been a preference to stick with tier 1 capital in the numerator rather than create something new which is interesting.
I think those are the main ones we've gotten. I will stop here in the interest of time and happy to discuss other issues or more concerns or questions.

Did I address your --

MEMBER EDWARDS: You did. Thank you. And I appreciate your continued inspection of it. Thank you.

MEMBER HANRAHAN: Ryan, I'm sure you're better at math than I am, but it seems to me that an 8 percent CBLR would be a pretty good proxy for a bank that would be north of the well-capitalized PCA standards. Do you disagree with that and could you also comment on how you got to 9 percent?

MR. BILLINGSLEY: Yes, your math is pretty good.

No, I think that's kind of why what I said earlier, we kind of viewed this as a package. So, part of the rationale for picking the qualifying criteria, and this is kind of laid out in the rule itself, is that in the existing system
we have in risk-based capital, if you have a lot
of those particular things that I just mentioned
your risk-based capital requirements go up.

So there's this kind of balance between
-- one of our stated goals was not to allow for a
reduction in capital through this framework, but
just to introduce something simple.

So one could envision a reduction in
capital requirements for an institution that has
a lot of those things I just mentioned. And then
there's a question mark whether or not that's the
intention here.

So I think when you take the 9, when you
take all of those factors together you're right to
say that for most banks that's a slightly higher
capital requirement. And that probably holds true
at 8 depending on how you jigger with those
criteria.

But that's all a part of the calculus
for how do you ensure that this framework doesn't
-- we don't see a decline in the amount of capital
that banks currently hold as a result of picking
Those are some of -- that's all going to be part of the deliberative process. But I take your point that 8 percent for many banks is still more than they're required to hold today.

MEMBER EDWARDS: You make a great point there. I guess I just would point out that if you're concerned about -- certainly everybody would agree this is not about lowering -- providing an avenue to lower capital. I totally get that.

But if you're concerned about sort of weeding out those banks that have those complexities it seems like you could figure out a way to adjust these factors maybe more or whatever and deal with that to make sure that that's accomplishing the goal which is laudable, but yet opening up maybe the window for other -- the vast majority of non-complex community banks that wouldn't fall into that anyway. So just a further comment.

MR. BILLINGSLEY: I think that's a fair comment. To be honest, a lot of the comments we've
gotten so far have been focused on numerator, PCA and the level and less on the criteria. So we're hoping to get some more feedback on that to kind of put it all together.

MEMBER EDWARDS: Thank you.

MEMBER DONNELLY: Ryan, a comment. As I read through the document I read that if I -- and I would like you to tell me that I'm not thinking correctly.

If I opt in, and I appreciate you saying I could have a key to turn it on, turn it off. That in itself is another question.

But it reads to me that if I don't opt in, I will be treated differently if I drop below 9 percent than if I have opted in. I didn't realize the switch was that easy.

So, is that an accurate statement? I'm going to be treated different even though I have the exact same capital level if I didn't opt in.

MR. BILLINGSLEY: I would say that we're envisioning it as an optional framework. So if you elect not to use it, that's a perfectly
reasonable business choice.

MEMBER DONNELLY: And I understand that.

MR. BILLINGSLEY: Right, and then you will be looked at under the risk-based framework just as you are today.

MEMBER DONNELLY: But if I opt in and both me drops below 9 percent I'm treated differently if I've opted in or if I haven't opted in.

MR. BILLINGSLEY: I see. So you're saying I've opted in and I drop below 9, how are you going to treat me? Yes.

MEMBER DONNELLY: I read that that I'm treated differently so this tells me that I need to consider not to opt in just because I don't want to be treated differently --

MR. BILLINGSLEY: I think --

MEMBER DONNELLY: -- if I did opt in.

MR. BILLINGSLEY: I think that goes to Jim's concern directly about what's the outcome of dropping below 9 in this parallel PCA framework.
And I think that is the concern we're hearing.

That is potentially a punitive impact of the leverage ratio as proposed.

I can tell you that's -- that wasn't the intention. The intention was to create optionality.

So I think just to be transparent I think -- the way I think of this working is that if a bank has its CBLR declining it's probably going to want to do some proactive thinking about switching back because there's a good chance to Dan's point that its risk-based ratios might be higher, it will provide an extra cushion over any PCA threshold.

So you would think that there would be some planning going on heading to 9, so that in practice maybe this parallel PCA framework doesn't actually have an impact on said institution.

But you can see where maybe there's a huge and sudden loss, maybe it might help us with respect to how to categorize such a bank in the PCA framework because they can't produce a risk-based
ratio for some period of time.

I think we're trying to solve for that procedural aspect of this through this proposal and I think that's where we're expecting to get a lot of comments like Jim's about did we get it right, can we tweak it, how can we make this more practicable? Does that help?

MEMBER DONNELLY: And I track that. I understand. I'm pretty simple and it seems to me that it's just a flat number that if you're below, I mean you don't have to opt in or opt out. You just have capital and it's X and you've been calculating it for a long time.

If I drop below that X, I now have to do my stuff.

MR. BILLINGSLEY: Right.

MEMBER DONNELLY: It just seems like we've added a layer of complexity and more work to track -- because I agree, and I appreciate the opportunity to turn it on and turn it off. That creates more work that we're trying to avoid the work. At least that's how I'm anticipating.
Thank you.

MR. BILLINGSLEY: Sure.

MEMBER SHETTLESWORTH: I just have one quick comment on that. Whether we opt in or opt out, we haven't made that determination yet. I don't know if we're all that excited about it.

Even if we do opt in, I can't imagine that we wouldn't be tracking all capital ratios every single month because if you ever get close to that 9 percent, then you'd have to know where you're going to stand.

So we're perpetually going to have to provide and report that information ongoing in all capital ratio analyses that we have.

And so what I'm sensing is the only potential benefit is a possible shortened call report which might be helpful, but it's not going to make or break anything.

I like the spirit of the conversation, I just am not sure if it's -- from what I know about it today I'm not sure if it's quite delivering on what we were hoping for.
MR. DAVIS: Okay. All right, so if we could move to our next group. From the Division of Risk Management Supervision, we have Associate Director Lisa Arquette who oversees our Anti-Money Laundering and Cyber Fraud Branch, and Deputy Director of Operational Risk Martin Henning.

From our Division of Depositor and Consumer Protection, we have Associate Director Luke Brown, who oversees consumer protection policy.

MS. EBERLEY: Okay, great. And as they're getting seated, I'll share with you what they're going to be speaking about.

Lisa has an anti-money laundering update. Martin is going to discuss supply chain risk as well as recommendations regarding contractual provisions with service providers.

And then to wrap us up, Luke's going to talk about some changes in the flood insurance rule which were issued in February. So, Lisa.

MS. ARQUETTE: Great. Thank you, Doreen. And good afternoon. I appreciate the
invitation to be here.

You can either follow along with the slides or not. I think that I'm just going to talk high-level.

In October I was here providing an update on the recently issued interagency statement related to sharing BSA resources. And I believe Jamal El-Hindi mentioned that today. It's really recognizing that community banks with low complexity probably would benefit or could benefit if they have collaborative arrangements with other banks to share independent testing for instance, swapping out resources, training, et cetera.

And we also issued a statement in December of 2018 regarding innovation in the BSA/AML space. So long as a bank is compliant with Bank Secrecy Act requirements, we think that it is a good thing to innovate, to look for ways to improve. It's not a requirement, but it was a statement that was issued to really encourage, where appropriate, innovation, and we look forward
to being full partners with banks as they walk through innovative steps and approaches and technology, et cetera.

But today what I'm going to cover are two additional statements that we plan to issue along with the other federal banking agencies and one with the federal banking agencies and FinCEN.

The first is an attempt to be very transparent in how we conduct BSA/AML examinations for the benefit of the industry. We've had a lot of feedback about the perception that our examiners spend a lot of time at your institutions, do an awful lot of transaction testing, evaluate all customer types, look at all products and services. And I'm seeing heads nodding.

But in fact, we think it's important to emphasize that we have a risk-focused approach to the BSA/AML examination, and we're going to emphasize that with our examiners as well.

But it starts with looking at your risk assessment, looking at your independent review and so long as those cover all customers, products,
services, geographies in which you operate, it covers your risks for money laundering, terrorist financing and other illicit financial risks, we're really going to leverage that information, tailor the scope of our exam, and the better job that you do in identifying your risk profile, the less amount of time we're going to spend onsite.

And that's generally how it works. We think it's time to emphasize that one more time, to share that with you and to share some of the steps that we take to risk-focus our examinations.

So we plan to get a statement out soon. That would be within the next couple of months regarding risk-focused approach.

The next statement that we plan to issue will be the federal banking agencies. FinCEN won't be joining us because it's really relative to our authority to require banks to have a BSA compliance program, to supervise, to make sure that banks are compliant with BSA requirements, and then there are certain requirements that we have as regulators to enforce BSA requirements.
We issued guidance in 2007 and this is really nothing new. There are no new expectations. This relates to our authority under section 8(s) of the Federal Deposit Insurance Act, but it clarifies.

We've had many, many years of experience in this space and we think that we owe you some clarification regarding circumstances under which we would have to take a formal action.

So we are emphasizing for the benefit of everybody in here and other banks that this is not related to technical and isolated problems in a bank.

This is not related to a couple of issues related to CTR filings, or a couple of SAR issues.

It really is related to the significant issues that represent a breakdown in the BSA compliance program.

So for instance, a bank has to have a BSA officer, independent testing, training, internal controls that are risk-based and
reasonably designed to maintain compliance with BSA requirements.

You also have to have a customer identification program and a customer due diligence program, essentially understanding the nature and purpose of your customers and those relationships. And I know that you do that. You've been doing that for years. So this is really nothing new.

But if there is a failure in any of those components, again significant, systemic failure, the banking agencies are required to take a formal action.

But to put it into perspective, we have to conduct a BSA review at every safety and soundness exam, and we conducted well over 1,500 last year. And we took eight actions. That's a really small portion of the institutions that we examine. In fact, it's about 0.05 percent of the institutions.

So this isn't anything that should alarm anybody. It's really just a clarification
of our authority to enforce BSA requirements because again we think that it's important that the industry understands that it's not the little technical issues that we might have as an examination finding, but rather it's the significant and the systemic problems.

So look for that within the next couple of months as well.

And finally, and I understand that this is a bit of interest to the group here maybe, what's the difference between hemp and cannabis, or hemp as a derivative.

CHAIRMAN MCWILLIAMS: Don't answer. This is being filmed, just be careful.

(Laughter)

MS. ARQUETTE: I'm going to read from my notes since this is being filmed.

But in 2014 the Agricultural Act permitted industrial hemp research that was authorized by certain states. So certain states excelled in growing hemp and researching the benefits of hemp.
It legalized growing and cultivating of industrial hemp for research purposes in states where such growth and cultivation was legal under state law, notwithstanding existing federal statutes that would otherwise criminalize the conduct. That was 2014.

Fast forward to 2018. In December of 2018, the new Farm Bill, and I didn't know we would be looking at farm bills but we have. The new Farm Bill addressed hemp as well. Made it a little more mainstream and it's treated like other agricultural commodities in many ways.

The new Farm Bill explicitly allows the transfer of hemp-derived products across state lines for commercial and other purposes, and it puts no restrictions on the sale, transport, or possession of hemp-derived products so long as those items are produced in a manner consistent with law.

Okay, what is that? Hemp cannot contain more than 0.3 percent delta-9 tetrahydrocannabinol. So that means that
essentially -- we call it THC. It has to be grown and cultivated to have a certain amount of THC. And in those instances, hemp is used for a lot of things -- rope, clothing, different types of products.

This has been removed as a controlled substance and it no longer -- hemp itself that meets that criteria no longer violates federal law.

This is important because cannabis or marijuana requires that an institution if you have a marijuana-related business as a customer you're required to file a suspicious activity report because cannabis or marijuana violates the Controlled Substance Act.

However, this derivative that meets the criteria that I just mentioned, 0.3 percent THC, is carved out and it is not a controlled substance.

So if you had a customer for instance that was engaged in cultivating, growing, selling industrial hemp, you would not on the face of that customer, without any other indicia of criminal activity, you would not have to file suspicious
activity reports.

For all other cannabis-related customers, your other marijuana-related customers, you file SARs. And you've been doing that since 2014. So that's nothing new.

Any questions on that?

MEMBER KIMBELL: Bruce Kimbell, First Community Bank in Clinton, Kentucky.

Last year, we experienced our first hemp production in Kentucky for a -- really on a very large commercial scale.

Since that point in time, we've just seen the number of processors, the number of entities move into the state has just really blossomed with a lot of various processing companies coming in that are going for the CBD oils and then also coming along too for -- we had a gentleman yesterday not too far from our bank come in and is going to be using it for flooring. It's a product that's grown, and we had a couple of customers last year that grew.

It's a quite detailed process to get
registered and to do all that. But it really does seem to be taking off.

Now, will it ever replace the conventional crops? No, probably not. But it does seem to have its place and at least at this point in time the hard part for us in the banking world for our part is just trying to determine who's real and who's not real from the purchaser side.

Because they ask a lot of our growers. Some do and some don't. And some it's a rather -- quite expensive crop to grow, number one. If you grow it for the oil it's a very labor-intensive. It's very -- Kentucky too is famous for tobacco production back in the day. And so very similar to that.

So there's a lot of learning to do on all of our parts in trying to decide who the players are and who's legitimate and who's not. We're counting on state government and those folks too to help guide us through the process of who's real out here.

But right now we're still in a stage
where there's lots of money chasing the product now still, and we're trying to find out just who are the legitimate players out here. So it is something we're all having to deal with right now.

And we're being very cautious, but still, yet too thankful to Senator McConnell and all that getting that put in the Farm Bill so they can move forward and so that we could hopefully -- hopefully it will give our growers another viable alternative to have in their arsenal there of things that they can do to make a living. So that's where we're at.

MS. ARQUETTE: Thank you for the feedback. I would suggest that you still have the customer due diligence requirements and that's what you just described, the challenges that you face in making sure and understanding that you know the nature and purpose of the customer's account. And so I appreciate you bringing that up.

MEMBER DONNELLY: Are you seeing any particular mistakes that banks are making? In Kansas, we have five different states around us
that have all different levels, and it's not the hemp that's the issue.

But they're all different levels and they cross over the border. I'm a couple of minutes from Missouri, and their rules are different than my rules.

What are mistakes that banks are making in opening accounts or not properly doing the reporting?

MS. ARQUETTE: So related more importantly to the marijuana-related customers and not the hemp customers? Is that what you're asking?

MEMBER DONNELLY: Yes.

MS. ARQUETTE: Because there's a spectrum, right.

MEMBER DONNELLY: There's a whole range of what goes between marijuana and hemp and what can come in between.

MS. ARQUETTE: Yes. So the FinCEN guidance required that banks follow the state license -- that banks make sure that their
marijuana-related businesses follow the state licensing requirements. Most states have an infrastructure where they do some level of supervision related to those businesses.

And so making sure that the businesses comply with the state regulations.

And there are an awful lot of banks that file SARs for marijuana-related businesses so we recognize that they generally have banking accounts.

It's rare that we've seen mistakes related specifically to those types of customers, but rather the bank may have weaker risk management practices overall related to their customer base in general, rather than just marijuana-related customers.

So we haven't seen specific problems just with those types of customers because banks largely have done a pretty good job making sure that their customers are compliant with the state law and that they have been licensed and that they are complying with state requirements.
And back when FinCEN issued the guidance, they had embedded some red flags if you will, or the Department of Justice enforcement priorities.

So banks have done a good job making sure that their businesses really aren't going that extra step and doing things that would indicate other criminal activity. So we haven't seen specific problems largely with our banks.

MR. HENNING: Well, good afternoon. My name's again Martin Henning. One of the things I work on is IT risks and cyber risks as well. As Doreen mentioned, there are two topics I heard also this morning that it's useful for you to hear what's on our minds in terms of examination priorities, supervisory priorities.

These are two things that we're very focused on at the moment.

The first one we title supply chain risk. The risks here are very similar to any third-party service provider.

But the thing I want to point out today
that's really noteworthy we think at least to start in a good direction is an OFAC statement and press release in addition last year in June.

So, sort of the bottom line to begin with is ownership and control of companies with whom you do business, particularly IT services companies, is a risk worth considering more carefully today than ever before. That's not news.

But in June 2018 OFAC had a press release that identified several companies and three individuals. The companies that we took note of and considered may have business in banking was a company named Digital Security.

Digital Security was designated by OFAC for blocking -- for providing material and technological support to Russia's federal security service.

And a second company on the list was ERP Scan which is a company owned and controlled by Digital Security. So the first company mentioned.

And the thing that's interesting about
this. We researched and talked to FinCEN. We believe this is the first time that an IT technology company has been sanctioned by OFAC. That hasn't happened before.

When -- the difference for us and for you between a company that's been sanctioned by OFAC and one that hasn't, just considering starting a contract with is obviously monumental. There's a huge difference.

Our examiners can do something with this information. You can do something with this information.

In the case of ERP Scan, I think this was a company -- literally a company selling security services for enterprise resource planning products. So if you envision a better way to get into the nuts and bolts of a company's IT infrastructure I can't think of it.

We're going to scan everything that's going on inside your data center.

So, I think the unique thing here though is the -- when you think of entities going on the
OFAC list there's compliance folks in your organizations who deal with that who probably have never had to have a conversation with the IT folks before.

And that's the thing that's new. To the extent that the U.S. government can do this again and again, and identify these kinds of companies, that's a collaboration and a communication channel that obviously needs to exist in order for you to be able to take action.

What we did last year in response to this, the first thing we did is we checked our database of service providers built through bank reporting under the Bank Service Company Act.

It's a requirement for you to tell us when you sign a new contract. We've got those companies in the database. Do these two companies appear anywhere? And the answer was for us that we found nothing.

The second action we took was to collaborate with the other banking agencies to issue a joint statement and press release which we
did in November of 2018 that recommended identifying, assessing, and mitigating any risk associated with these sanctions. Basically the plan just requires a high degree of collaboration across the financial institution's OFAC compliance, fraud, security, IT and other risk functions.

So trying to get that point out. You know what to do when somebody goes on the OFAC sanction list. That's the unique component of this one.

The second topic is basically strong contracts. Again, sort of the bottom line is the security and resilience of a bank is more tied than ever to companies with whom you contract like your core banking service provider.

For example, your ability to alert customers to a heightened risk of identity fraud resulting from a breach at a service provider is dependent on the service provider alerting you to the incident that they just had.

The specifics around incident...
notification are important enough to be explicitly referenced in the contract and with terms that are well understood and measured by both parties. That's one example.

Do you know and does your contract document when you're going to be notified of an incident affecting customer data?

A second example, your ability to respond and to recover from a cyber incident is more and more dependent on service provider ability rather than just your own.

Many are moving away from hosting their core services themselves to the core provider being the host. This puts your resilience eggs more in their basket which makes it important enough to be explicitly referenced in the contract and with terms that are well understood and measured by both parties.

The most mature banks even include business continuity testing terms in their contracts.

So again, these are risks that you're
aware of. Challenges in negotiating important contract terms for a smaller client. The material service provider is an issue that I think the CBAC raised in this room a few years ago.

Again, just switching this around to what are we doing about this risk. In the IT exam procedures we provided our examiners in 2016, we instruct them to more carefully look at contracts and our research indicates they are highlighting weaknesses more often today than they did prior to 2016.

Some of you in the room, maybe more of you than not at this point have been examined using those new examination procedures. The feedback we've heard is fairly positive although very comprehensive. Sometimes those are at odds with each other from your perspective, but I think the second time through that will be easier for our examiners.

But those new procedures do have them looking at contracts a little bit closer.

Also, with regard to what we're doing
with our colleagues at the Federal Reserve and the Office of the Comptroller of the Currency, we're examining the strength of contracts in the two example areas across the more significant technology service providers.

So, we have a collaborative team that examines on a constant basis the most significant service providers in the country and basically a horizontal focus for us starting this year is on their contracts with banks. Pulling those either directly from a sample set of banks or from the service provider themselves and looking into these two areas particularly.

Again, the feedback we heard in the CBAC and we've heard outside of this group as well is it's very difficult for you, especially the smaller you are to have an impact on those kinds of contracts and relationships you may have had for many years.

So our thinking is let's look at it from the other side of the coin.

Finally, we meet periodically at round
tables with the leaders of these companies. I can tell you we have emphasized the need for contracts to mature and strengthen in these areas very pointedly.

We have these meetings basically once every two years. The last one was at the end of 2017. Comments were made very, very directly in the opening of that round table. Our next one is going to be this December. So again, focusing on the service provider side to emphasize our desire for contracts to mature in these areas and to get more specific.

So, lastly I'd say we are considering communicating broadly to state non-member banks on this topic and really just want to give you a preview of our thinking on that second topic and get any feedback you have.

That's what I've got and I'd be happy to answer any questions you have.

MR. BROWN: Okay. I'm going to talk about flood insurance. The agencies issued a final flood insurance rule last month.
According to a 2018 Wharton study, more than 95 percent of the residential flood insurance policies sold in the U.S. are purchased through federally sponsored national flood insurance program.

The study also estimated that private flood insurance policies in the U.S. account for about 3.5 to 4.5 percent of the market.

Consequently, one of Congress's primary objectives in passing the Biggert-Waters Flood Insurance Reform Act was to simulate the private market.

The act directed the FDIC, the OCC, the FRB, FCA and NCUA -- hopefully I didn't miss an agency in that list -- to issue regulations requiring lenders to accept private flood insurance policies as defined by the act.

So we issued the regulation last month. The primary issues addressed by the final rule are lenders' mandatory acceptance of private flood insurance policies, lenders' discretionary acceptance of private policies.
And this might be of interest to Lori. We also focused on mutual aid society. I see that she's nodding there.

The first key issue covered by the final rule is lenders' mandatory acceptance as I mentioned. The final rule requires lenders to accept private flood insurance policies that meet both the statutory definition of private flood insurance and the mandatory purchase requirement.

Because of the concerns that many institutions had about the lack of resources and expertise for independently verifying the documents that are required under the rule, the agencies decided to provide lenders with a compliance aid to help them determine whether a policy actually meets the definition of private flood insurance.

Now that definition you might be aware is quite complex. It's got seven key parts. It's got subparts. So the agencies thought it was important and the complications around that definition were clear in the public comments that
Specifically, the compliance aid allows a lender to leverage the expertise of a private flood insurance issuer who provides a written statement indicating that the policy meets the definition of private flood insurance.

This statement can be relied upon without further review of the policy by the lender.

However, the lender may choose not to rely on the compliance aid and the lender may instead just separately independently review a policy and determine whether it meets the standard.

The second key issue that I mentioned is lenders' discretionary acceptance of private flood insurance policies.

The final rule permits institutions to exercise their discretion to accept certain private flood insurance policies that do not meet the statutory definition subject to certain restrictions of course.

As a result, a lender may accept a private policy that does not meet the standard
definition under the statute under the four conditions I'm about to describe -- provides coverage in the amount required by the flood insurance purchase requirement, is provided by an insurer that is licensed, admitted or not disapproved by a state regulator, and covers both the mortgagor and the mortgagee as loss payees and provides sufficient protection of the loan consistent with general safety and soundness principles.

The final key component of the rule as I mentioned is mutual aid society plans. Lenders are also permitted to use their discretion to accept a plan provided by a mutual aid society, if the plan meets the following criteria.

The lender's primary supervisory agency has determined that the plan qualifies as flood insurance for the purposes of the Biggert-Waters Act, provides coverage in the amount required by the flood insurance purchase requirement, covers both the mortgagor and the mortgagee as loss payees, and provides sufficient
protection of the loan consistent with general safety and soundness principles.

The effective date of the rule is July 1, 2019. Happy to answer any questions.

MR. DAVIS: Great. Well, thank you very much. I gained a few minutes here on the time so I'm going to ask Anthony to please come up.

We're going to grab one of the sessions that we had to delay from the morning. Anthony is our ombudsman and he is going to speak to the post-examination survey process change.

And Anthony, if we could do about 10 minutes? Does that work?

MR. LOWE: Good afternoon, everyone. I want to talk with you just briefly about the -- talk a little bit about the FDIC's post-examination survey process. And I am going to jump around and just go to a couple of the slides just for reference purposes.

The current process that we have was implemented back in 2002. So I'm already on slide number 2, and it was basically done for a couple
of reasons, primarily so that we could improve the quality and the efficiency of the examination process and also to ensure that the exams provided a beneficial tool to achieve safety and soundness standards and regulatory compliance.

A primary portion if you were to look at the surveys which I hope most of you have had an opportunity to look at and maybe even complete at some point in time, it centers around the examination report with questions pertaining to the clarity of the transmittal letter, the written guidance and the usefulness of the examination recommendations for improving operations. So again that's a primary purpose of the survey.

So the way the current survey is done if you look at slide number 3 every time that we complete an examination be it risk, compliance, or the combined compliance and CRA at the completion of that exam when it's transmitted to the bank there's a separate correspondence that comes out either from the risk or the compliance division director that includes correspondence that talks
about the survey process.

And it includes a unique identifier number that banks can use to go online to complete the survey.

We do include a hard copy of the survey in the event that a bank wants to complete the survey that way.

The survey does include five broad categories talking about the pre-examination process, the examiners, the exam process, the exam report, and then an overall and kind of optional category where banks can include some catch-all type of information.

Once that data is completed and the bank submits it through FDIC Connect, it's eventually aggregated by our Division of Insurance and Research and provided to the Divisions of Risk Management and DCP in an aggregated manner and also anonymous without any specific identifiers to an individual bank with one exception.

If a bank does specifically ask for a follow-up contact, the entirety of the survey is
provided to the responsible division. And I'll come back and talk about that particular issue here in just a moment.

If you go to slide number 4, this is where I want to spend just a couple of minutes and want to talk with you and try and get some responses here in just a minute.

If you do have any questions, please do bring those forward at any point in time.

Over the last six years, this shows what the response rates have been with regard to the surveys. On the risk side, they've been in the 30 to 35 percent. For 2018, they were at 33 percent. And on the compliance side, they've been around 40-45 percent. For 2018, it was at 44 percent.

There's no specific empirical data to say what is the reason for this rate of return. I don't know if bankers think it's burdensome, if it's time-consuming, if they don't think it's of any value added, but I can tell you when I've been talking with individual bankers, with some of the trade associations who have talked with their
memberships, and information that's come from contacts that my regional ombudsmen have had over the last year and a half, they've indicated that some bankers are concerned about the confidentiality or lack of confidentiality with this process, and that they see that the survey goes out from the divisions, that it also is eventually received directly -- indirectly back to the divisions eventually.

So there's a concern about there being to some degree a conflict of interest here with the process.

And also one thing that we have been hearing with my group is that banks are concerned if we do give candid responses will this come back at some point and potentially be used against us at a future examination.

So we want the survey to be a useful tool both for bankers and for the FDIC. We would like to see these response rates to be improved.

The Ombudsman Office as we go forward, if you flip over to slide number 5, later this year
is going to be working with RMS and DCP and some of our other divisions to revamp the process to some degree.

First off, the ombudsman is going to assume responsibility for sending out the surveys. When the examinations are completed, we'll be sending out the letters soliciting input from the banks with regard to the examination process.

A couple of things that we're going to do a little bit different right off the bat is that we are going to send out before the survey actually goes out a pre-survey notice. Probably 30 days, maybe 45 days, before the survey goes out just to say hey, examination is going to be completed soon, we want you to know that we do want your feedback and then the survey will eventually go out with the examination report.

We're also going to be sending out a reminder notice probably 45 days or so after the survey goes out again to let you know that this feedback is extremely important to us.

Also, we're going to build in a process
that if a bank does request a follow-up contact that
before we send that information over to the driver
divisions or whoever's going to do the follow-up,
that we find that information and before it goes
forward that we redact that information and only
the contact information will be provided to the
driver divisions. None of the survey information
will be going forward.

We're also eventually going to take a
look at some of the survey questions, and we'll be
communicating potential changes to the industry.

So, I did want to go through this. I
know I went through it quickly, but I did want to
get to the point so I could ask you questions and
see if you have completed the survey. If you have
not, why not? If you have suggestions.

MEMBER DEBIASI: Anthony, I find it
quite astonishing that that response rate is that
low. If I recall, the survey is not that in-depth
I don't believe if I recall correctly. We're not
talking a lot of time commitment.

MR. LOWE: It's basically the five
categories, I think it's a total of 26 questions. There's a couple of nuanced differences between the risk and compliance, but they're basically the same. You could probably do them in 15 minutes or less because you just ask do you agree or disagree, the depth of your agreement or disagreement with the 26 questions. So it should not take a lot of time. So I'm assuming you have completed yours.

MEMBER DEBIASI: That's correct. At least I wouldn't admit it if I didn't.

(Laughter)

MEMBER LEAVITT: We've issued our survey attached to the report of examination confidentially to the members of the board so that they can see that. And then VP of risk management collates from board and senior management some sense what those responses are and then she completes on behalf of our organization and I approve and we submit. So that's the process that we use. It seems fairly straightforward.

MR. LOWE: And you use FDIC Connect to submit it? Okay.
MEMBER LEAVITT: We will be. We're in that process right now.

MR. LOWE: Okay.

MEMBER EPSTEIN: I would encourage you to communicate the fact that it should only take 10, 15, 20 minutes to complete the survey.

I know we've done some surveying of customers and would-be customers and if you express right up front that it's a minimal time commitment then your response rates are much higher. So you may just want to mention that when you initially submit these to various banks.

MR. DAVIS: Anybody else?

MR. LOWE: If you have any other suggestions or comments, my contact information is on the last slide. So I appreciate the time. Thank you.

MR. DAVIS: Thanks, Anthony.

CHAIRMAN MCWILLIAMS: If I can just add something, please. So please utilize Anthony's office. We have an Office of the Ombudsman for a reason. And it's -- Anthony is doing extended
outreach and his folks are engaging as well.

But we don't have it just as a perfunctory function. We have it because it's supposed to be real and it's supposed to be meaningful. So if you have any recommendations, either provide them to Chad, Anthony, or myself.

But we're looking to strengthen the role of the ombudsman and the appeals process as well at the FDIC. Thank you.

MR. DAVIS: Great. With that it's break time. If I could borrow five minutes from it and ask that people still be here at 2:45 then we'll try and get in the last two sessions. Thank you.

(Whereupon, the above-entitled matter went off the record at 2:36 p.m. and resumed at 2:47 p.m.)

MR. DAVIS: So we are going to move back into the morning part of the agenda one more time. We've got a briefing on the results of the 2017 National Survey of Unbanked and Underbanked Households from the Division of Depositor and
Consumer Protection. We have Associate Director Keith Ernst and Senior Financial Economist Alicia Lloro and Jeffrey Weinstein. Thank you.

MR. ERNST: Great, thank you, Chad. Good afternoon, everyone.

One of the responsibilities we have at the FDIC is to assess participation in the banking system.

Over the years, survey research has become a key staple of our approach in this area, and so we're really pleased to share with you the results from our latest survey that we released just in the fourth quarter.

The survey is the product of diligent work by a small group of researchers including Jeffrey and Alicia who work together with our partners at the Census Bureau to really ensure that the work meets rigorous standards. It provides a reliable frame of reference for understanding the extent and nature of participation in the banking system and for beginning to think about the opportunities to expand economic inclusion.
We have a relatively short presentation of results. We'll offer a few thoughts about the implications from the findings after which we'll look forward to addressing your questions and hearing your observations.

And I'll just, I'll say for us it's a real treat to get to share this information with you. We look forward to the opportunity for engagement, and I hope you get as much out of the presentation as we do. Thank you.

MR. WEINSTEIN: Okay. Thank you, Keith. So this presentation is going to highlight some of the findings from the 2017 FDIC National Survey of Unbanked and Underbanked Households. And our full report is going to cover additional topics.

So as Keith mentioned, in partnership with the U.S. Census Bureau, the FDIC conducted its fifth biennial household survey in June 2017.

The goals of the survey are to provide reliable estimates of unbanked and underbanked populations as well as insights into how banks
might better meet the needs of these consumers.

The sample is nationally representative with over 35,000 respondents and estimates are available at the national and state levels and for larger metropolitan statistical areas, MSAs.

So a household is classified as unbanked if no one in the household had a checking or savings account.

And a household is classified as underbanked if it had a checking or savings account and used one of the listed on this slide transaction or credit products or services from an alternative financial services (AFS) provider in the past 12 months.

In 2017, 6.5 percent of U.S. households, 8.4 million, were unbanked. The unbanked rate in 2017 fell to the lowest level since the survey began in 2009.

The 0.5 percentage point decline in the unbanked rate from 2015 to 2017 can be explained almost entirely by changes in household
characteristics across survey years, particularly improvements in the socioeconomic circumstances of U.S. households including income, educational attainment, and employment status.

However, if we look at the longer term decline from 2011 to 2017, only about half of this decline can be explained by changes in household characteristics across survey years, the longer term decline.

In 2017, 18.7 percent of U.S. households, approximately 24.2 million, were underbanked. The underbanked rate declined by 1.2 percentage points from 2015, and approximately half of this decline can be explained by improvements in the socioeconomic circumstances of U.S. households.

As in previous years, unbanked and underbanked rates varied considerably across the population.

For example, unbanked and underbanked rates were higher among lower-income households, less-educated households, younger households,
black and Hispanic households, households headed by a working age individual with a disability, and households with variable income, income that varied from month to month.

Just to give you a flavor of changes in unbanked rates for certain populations, I'll go through this pretty quickly.

Unbanked rates in 2017 were lower than or similar to unbanked rates in recent years for most segments of the population.

Recent declines in unbanked rates have been particularly sharp for younger households as shown in the graph here.

Unbanked rates among black and Hispanic households have also declined sharply in recent years. However, despite these improvements, unbanked rates for younger households and for black and Hispanic households remain substantially higher than the overall unbanked rate in 2017.

So looking at geographic variation. As in previous years, unbanked rates in 2017 varied widely across states with unbanked rates generally
highest in the south.

Unbanked rates ranged from 1.5 percent in Vermont and Minnesota to 15.8 percent in Mississippi. And although not shown here, underbanked rates in 2017 also varied widely across states.

So the 2017 survey asked unbanked households about the reasons why they did not have a bank account. Findings are similar to those reported in previous years.

So if we look at the top two bars, in 2017 more than half of unbanked households, 52.7 percent, cited do not have enough money to keep in an account as a reason for not having a bank account, the most commonly cited reason.

And this reason was also the most commonly cited main reason for not having an account, the light blue bar, 34.0 percent.

Three in ten unbanked households cited don't trust banks as a reason for not having an account, the second most commonly cited reason.

And this reason was also the second most commonly
cited main reason for not having an account.

And if we look across the different reasons, if we look at the light blue bars, we can see that account fees are too high was the third most commonly cited main reason for not having a bank account.

So moving on to some information about banked households. So as in earlier surveys, banked households were asked about the methods they used to access their accounts in the past 12 months.

We can see from the graph that use of mobile banking as a primary method of account access increased sharply from 5.7 percent in 2013 to 15.6 percent in 2017.

On the other hand, if we look at the top set of bars, use of bank tellers as a primary method of account access declined substantially from 32.2 percent in 2013 to 24.3 percent in 2017.

However, even with the decline in the use of bank tellers, this method remains the second most commonly cited -- the second most prevalent primary method of account access after online
banking.

And I would now like to turn the presentation over to Alicia to talk more about bank branch visits.

MS. LLORO: Thanks, Jeffrey. So in addition to asking banked households about the methods that they access their accounts by, we also asked them specifically about bank branch visits.

And in 2017, 86 percent of banked households visited a bank branch at least once. So that means that they spoke with a teller or other employee in person at a bank branch.

And about one-third visited a bank branch 10 or more times. Since we get this question a lot, I want to iterate that it doesn't count ATM-only visits. So they had to speak with a teller or other employee in the branch.

So we found that bank branch visits were especially prevalent in rural areas as nearly half of households in rural areas visited 10 or more times.

We also found that bank branch visits
were prevalent among households that use mobile or online banking as their primary method of account access. About one quarter of these households visited a bank branch 10 or more times in the past 12 months.

Turning now to credit, the 2017 survey included questions to capture the full range of credit products that are likely reported to the major credit bureaus. We call this mainstream credit.

The most common credit product was a credit card followed by mortgages, auto loans and student loans. About 20 percent of households had no mainstream credit in the past 12 months. As a result, these households likely do not have a credit score and likely face substantially reduced access to mainstream credit.

Differences in rates of no mainstream credit were especially pronounced by income. For households with less than $15,000, about half of them had no mainstream credit in the past 12 months. This is compared to only 4.3 percent with
households greater than $75,000 in income.

We also found large differences by disability status and race and ethnicity. About 40 percent of households headed by a working age individual with a disability had no mainstream credit.

And then looking at race and ethnicity, about one-third of black and Hispanic households had no mainstream credit compared to 14 percent for white households.

So one thing you might be thinking, are these racial and ethnic differences really reflecting differences in incomes? And so I just told you the differences by income were striking.

But if we look across income levels, we see the pattern persist. So for example, for households with income fifty to seventy-five thousand dollars, black and Hispanic households are more than twice as likely as white households not to have mainstream credit. A similar pattern for households with at least $75,000 in income. Hispanic households are about twice as likely and
black households about three times as likely not to have mainstream credit as white households.

Looking at geographic differences, the map looks quite similar to that for the unbanked rates. Rates are quite high in the south. The state with the lowest rate of no mainstream credit is Minnesota at 8.1 percent. The state with the highest rate at nearly 40 percent is Mississippi.

Looking now at just mainstream small dollar credit, which we define as a credit card or a personal loan or line of credit from a bank, we find that some households may not have their small dollar credit needs met fully by banks.

So we classify a household as having unmet demand for mainstream small dollar credit if they applied for a credit card or a personal loan or line of credit from a bank and was either denied or not given as much credit as applied for.

If the household thought about applying for a credit, but didn't do so because they thought they might be turned down, or if they used one of the credit AFS products, such as a payday loan or
a pawn shop loan.

We found in 2017 that 12.9 percent of households had unmet demand.

Staying current on bills is one measure of creditworthiness, and we find that 57.2 percent of these households stayed current on bills in the past 12 months. You have to excuse me, I've been getting over a cold.

So from our findings, we have three selected implications here.

The first one is that new underwriting technologies may help expand access to small dollar credit. Account balances and transactions may facilitate underwriting of small dollar credit for banked consumers.

A second is that physical access to bank branches remains important even as use of mobile and online banking has increased.

And then finally, targeted strategies for outreach or product design may help sustain increases in bank account ownership during economic downturns and increase access for
population segments with high unbanked rates.

Okay, and then to wrap up, we want to advertise our website which is economicinclusion.gov.

Here you can find our full report with the household survey results along with an executive summary and many, many appendix tables.

We also have a custom data table in case our appendix tables don't include a statistic that you're interested in. You can query our data yourselves.

And then we also have some new five-year estimates which help us provide more estimates for smaller geographies and to help us fill out state tables with more data.

And with that I'd like to pass it back to Keith.

MR. ERNST: Great. Thank you, Alicia and Jeffrey.

I hope one of the things that comes through in the presentation is this is not just for us an effort to take a census of unbanked or
underbanked households, but really to try and to deliver some insights into their circumstances with a thought that by providing those insights we can think a little bit constructively and start the conversation around what the opportunity looks like to expand opportunity and their participation in the banking system.

Whether that's thinking about the unmet demand for small dollar credit or thinking about the reasons households give for not having a bank account it's information that we're bringing to the table on an every other year basis.

And as Alicia has highlighted here trying to do our best to make accessible in a variety of formats.

Look forward to at this point taking questions from you about the effort, about the data points you've heard, taking your suggestions, your observations and reflections on your experiences thinking about these issues as well.

MEMBER K. KELLY: Do you happen to have any data that demonstrates the cost associated with
being unbanked?

And what I mean when I say that is for me to go and cash my check at a check cashing place what does that cost?

Help me if you have some data on that to kind of understand the economics of that. And you see it, it impairs the economics of those who are less fortunate economically and just looking at that and also a little bit through ethnicity.

If you don't have that that's fine, but I just wanted to know if there's any research on that.

MR. ERNST: Right. We don't have that data specifically. Those costs vary quite a bit across different geographies and different circumstances.

It's not something that we focused on. We can say on the basis of some of the survey results we see is that families certainly do have a sensitivity to the cost of financial services.

And in qualitative research we've done with consumers, affordability is one of the key
dimensions that they think about.

But there are other dimensions like control and convenience that come into play as well. So it's obviously cost is an important element of the equation.

I take also from your comment the observation that many households could benefit from a banking relationship maybe where some of those fees wouldn't be as costly.

I know we had a little bit of a conversation at lunch about that and I think that's exactly right. I think part of the thought behind this is thinking about how more families can experience the benefits of a productive banking relationship.

MEMBER K. KELLY: Right. And so for me, it comes to the foundational principle of financial literacy, right. And if I have the numbers, it's very easy to comprehend that if I'm doing check cashing it costs me X percent, but if I have a bank account -- and maybe it does have a fee, but if I have things that offset that fee it's
a wiser decision. On top of the convenience and other things that may be a factor.

So if there can be some form of an analysis that's, again, could be average across the nation or whatever those numbers may be I think it helps to communicate the message there from a financial literacy perspective.

MR. ERNST: Thank you.

CHAIRMAN MCWILLIAMS: We have already submitted questions for the 2019, right? They are in the process.

If you don't see, Ken, any of these questions built in it's because our questions were due and we have submitted them.

MEMBER K. KELLY: Certainly.

CHAIRMAN MCWILLIAMS: So it may be 2021.

MEMBER K. KELLY: No problem. Thank you.

MR. ERNST: I think we can also look for secondary sources. To the extent that we can bring information back to the table, we can look at
secondary sources and think about other opportunities to learn about these efforts. But that's exactly right.

One of the things that's interesting about survey research is you sort of never stop. You're constantly thinking ahead to the next iteration and how to sort of improve upon your instrument. Thank you.

MEMBER SHETTLESWORTH: Concerning the unbanked or underbanked, does that include or where does PayPal and stored money cards come into? I have a follow-up question for the bulk of those deposits that are not in the banking industry what that problem is.

MR. ERNST: Prepaid cards in particular are an area that occupy a bit of a gray zone. And most of the I think devices you're talking about would fall into that space.

And generally the instrument takes the approach that -- what we're asking about is a primary banking relationship. So for prepaid cards that are managed primarily by a non-bank
organization, they would not be included as banked consumers in our survey.

One of the innovations we're trying to bring to the next survey which will be in the field this June is to make sure we can capture banked customers who may be using a prepaid card managed by the bank.

Right now those customers, it's a relatively small proportion of prepaid card users, but they're in a gray zone. And we can identify that they're using a prepaid card, but we just haven't had the questions in place to be able to capture them as banked customers. That is one of the changes we're looking to bring forward in the next instrument.

MEMBER SHETTLESWORTH: Chris Donnelly and I were last week at a Federal Reserve Bank of Kansas City for a similar advisory meeting and I believe they told us $18 billion is the number. Does that sound right?

MEMBER DONNELLY: Eighteen billion in Venmo.
MEMBER SHETTLESWORTH: Okay, so just in Venmo. And so when I see a chart like that, I appreciate it, right. So we don't have -- this basically says it's hard to bank with banks because they charge us fees for that stuff.

So this is a black mark on the banking industry, and I get real frustrated when I hear stuff like $18 billion with Venmo or whatever that number is.

Well, it's not hard to keep costs down when you don't have the regulatory compliance burden that banks like us do. And so that's one point of frustration.

But then the other point is what happens -- everything is fine until we have an extra session and the $18 billion goes to zero because of some glitch, right?

And so I'm just curious. I don't think that's necessarily the FDIC's problem, but you can see how that's going to be a huge problem not if, but when, one of those big failures triggers a lot of consumer losses.
So is that something that's discussed at the FDIC?

MR. ERNST: So not in the context -- so in the context of this particular survey, we're trying to understand sort of consumer choices and what's motivating them.

I think your question goes more to sort of the integrity of the payment system and what's happening there. I can assure you there are a lot of -- a lot of energy and thought is given to understanding the payment system developments and the payment systems and the implications for consumers and for industry as well.

But for this particular panel of folks you have here, we're focused very much on sort of the consumer choice and what's driving that choice. So your question is maybe just a little afield for this group.

MEMBER DONNELLY: Keith, just one quick question. Fifty-two percent, almost fifty-three percent say that the reason they don't have an account is they don't have enough money.
Can you translate that to a real number, or is the data even available for that?

MR. ERNST: So that question in particular is one that has been difficult for us to interpret.

Based on some work we've done through testing for this next round, we are going to adjust that question. So rather than being that nebulous, it's going to be changed to ask whether you feel like you don't have enough money to meet minimum deposit requirements.

So that we can understand really what the source of that concern is. And there's some indication that that may be at play, but we'll get at that through the new question.

MEMBER DAKRI: Just a follow-up on that question too. Is there a baseline that you guys think exists out there of those who really don't have enough money.

When I read that what I look at is this says I get my paycheck Friday, I go cash it, I buy groceries, I buy whatever and then I'm done. I
don't have any more money left over.

Not so much what you guys were talking about there. I think it's more I just don't have the money.

MR. ERNST: The really interesting question coming out, one of the interesting questions coming out of our survey is we observe households even at the very lowest income thresholds asked about the survey. Households earning less than $15,000 a year, almost half of those households if I'm remembering the statistic correctly have a bank account.

So even among the very lowest income households in our survey, we do see families maintaining account ownership.

I think the really interesting question is what is it about their experiences, what is differentiating their choices from the choices of otherwise similarly situated households that aren't maintaining.

Is it a question of perception of expense more than reality? Is it some other
dimension along which they're interested? We highlighted the importance of the availability of branch services.

What is it that's making the difference? And I think that's one of the sort of unanswered areas that we're trying to learn more about.

MEMBER WALKER: Excuse me. To follow up on Kenneth's question and looking at the states and the different color coding, were you able to kind of tell or can you tell from the data those states that like in Minnesota that maybe offer financial education in different -- like in the schools?

Because there are some states that don't provide it at all and that's an issue.

MR. ERNST: Sure. You certainly highlight a topic in which the FDIC has a lot of interest given our development of the Money Smart financial literacy curriculum.

I don't know that we know enough about the state of financial literacy programs in schools
across the nation in connection with our data to have an answer for you today.

And I'm looking over at Jeffrey and Alicia to see if they have a thought on this in particular. It's an area we could follow up and explore more, and it's certainly an area where we have put some programmatic resources in our community affairs program into supporting the integration of financial literacy in schools.

Money Smart itself is mapped to curriculum so that school systems can adopt it and integrate it into their programming. But taking a look and understanding more about that relationship would be interesting.

MEMBER WALKER: Yes, and there's others as well besides schools. Older adults.

MR. ERNST: Absolutely.

MEMBER PAINE: Alicia, you said that we could get local information on the state level on the website. Is that correct?

MS. LLORO: Yes. So there's information. We report for every state and then
certain MSAs we provide estimates for as well. Not all MSAs.

MEMBER PAINE: We do have in our situation -- and I know we're Minnesota. We're the bomb, right?

(Laughter)

MEMBER PAINE: But the challenge for us is we do have a portion of our population that actually is unbanked. We have three Native American reservations that have some challenges with their banking relationships or lack thereof.

And so we need -- I don't know if it gets that granular as far as region or just state. You know, where can we help and address and move forward. And so that would be helpful to us.

MR. ERNST: So we do have, as Alicia has indicated, the state-level responses and they are broken out for different demographic groups where we have enough observations to provide a reasonably precise estimate.

We have over 35,000 responses to this survey which makes it the largest survey of its
kind. It enables us to sort of drill down deep.

We do eventually hit into limits where some population segments are just not well represented enough. I just don't know offhand whether we'll have that particular data item, but we can look.

MEMBER PAINE: Thank you.

MEMBER EPSTEIN: I'd just like to say appreciate this information. It's certainly -- it's telling and it's encouraging in that most of the trends are favorable and would agree that it boils down to financial literacy.

And in many cases I suspect some of the unbanked or underbanked come from families where their parents or grandparents were unbanked or underbanked.

And some of our efforts to -- education initiatives in the school and so forth, hopefully sort of a two-pronged approach.

One is financial literacy in terms of the math and so forth, but also just a chance for the students to engage with a banker and help them
understand that bankers are not beyond reproach, or bankers are not only interested in speaking to people that have wealth and sort of break down some of those perceptions.

But with that said I don't know -- this may be beyond the scope of your survey, but if there are any particular inclusion initiatives that other banks have launched that have been successful, sharing that information would be terrific because we all have a vested interest in doing this because it's the right thing to help these families enter into the banking system.

And also of course it's going to expand our base of customers and we're all interested in that.

MR. ERNST: Let me say we have two previous research products that I think may be responsive to your question.

So first the FDIC ran a pilot looking at a product called Safe Accounts which were checkless checking accounts designed with overdraft and NSF with the thought being without
the checks and without those fees it may be a little bit easier for some of these families to navigate that account.

What we found at the time and what's been borne out by more recent research from the Federal Reserve Bank of St. Louis is the evidence that those accounts were feasible and popular with consumers.

And so that is one report that can be linked to from this. We can provide it of course as well.

The other study we did was a deep dive look into the strategies that banks were using to expand economic inclusion among a subset of banks that had earned a reputation in that area.

And one of the messages that came through clearly in that effort was the need to have a strategy to build trust and connection and relevance with target communities.

The message we heard from banks directly, but also from community partners, was that the product itself was necessary, but probably
not enough in and of itself to build that bridge, that those strategies were an important part of the equation.

So those are two immediate things that come to mind as responsive. I don't know how they strike you or if they're intuitive or if they raise other questions for you, but we'd be glad to respond.

MEMBER EPSTEIN: Any specifics that would help us in terms of execution rather than the trial and error that we have been experiencing. If there's certain programs or initiatives that have been highly successful, then we'd love to duplicate it.

MR. ERNST: One thing I would say. So, in our Safe Accounts report, we provide some tables to talk about institutions' experiences retaining those accounts with the types of balances that ran through those accounts.

The Federal Reserve Bank of St. Louis has additional information that can help you understand sort of the nature of the transaction
activity in those accounts that might give you a
sense of what you might expect performance to be
through accounts designed like that, targeted at
households like this.

    MR. DAVIS: Thank you very much.

    MR. ERNST: Thank you all.

    MR. DAVIS: We have one more session
that I think would be good to get in today. So I'd
like to welcome our chief of staff Brandon Milhorn.

    He's going to discuss the FDIC's
Subcommittee on Supervision Modernization. This
is actually a subcommittee of this committee so I
thought it would be interesting for the committee
members to hear about this.

    The subcommittee met earlier this month
and was established to advise all of you on the
particular topic.

    And I'm also if he doesn't mind going
to put David on the spot as a member of the
subcommittee to also perhaps chime in on this as
well. So, thank you.

    MR. MILHORN: So, thank you very much.
When we set out our goals, when the chairman set out our goals for the FDIC in 2019, many of them related to the efficiency and effectiveness of the FDIC being responsible stewards for the Deposit Insurance Fund which provides us a budget which is funded by banks' fees, embracing and reinvesting in technologies at the FDIC, and also cutting the cost of compliance for our regulated institutions. So that we're getting the benefits of an efficient, effective supervisory model that protects risk and mitigates that risk, but doing it in a way that doesn't overburden the institutions we supervise.

So one of the ways -- our examination teams are already doing a fabulous job of scoping their examinations. Whether it's our DCP examiners on the consumer compliance side, efforts that our RMS team is making on its exam including risk scoping on the front end and forward-looking supervision -- all initiatives that have taken place over the last several years.

But the question that I wanted to answer was where are we going to be 10 years from now.
Where are we going to be 5 years from now, where are we going to be 10 years from now and what do we need to be doing now from a training standpoint, from a technology standpoint, from a workforce deployment standpoint that gets us to where we need to be?

As I've talked I know to some of you my background is not banking. My background is homeland security and intelligence.

But the challenges that we face in many ways are the same. How do you identify risk early, how do you take steps to mitigate it, that you get good information to policy-makers to make decisions about that risk.

And so we set out to create a Supervision Modernization Subcommittee for the Community Bank Advisory Committee.

The goal of that subcommittee is to pull apart our examination process, look at how we deploy our staff, how we train our staff, how we use technology in the process, what data we need from our supervised institutions, how we use that
data in the supervision process, and how we can become more effective supervisors over the course of the next several years using technology and by reexamining our processes.

That initiative kicked off in January. We identified 15 members. Five members are from banks from various sizes and shapes, from a technology -- from a size standpoint, from an adoption of technology standpoint.

We identified several former regulators to participate and a former examiner, two former regulatory attorneys, a couple of technology service providers with backgrounds to sort of give us advice on where technology is heading, and seven pure sort of technologists who could just advise on how we're using data, how we're using technology.

And an expert on distance learning, because we want to know how we can better train our workforce in that environment.

And so the questions that we've asked the subcommittee is real simple. The goal of the
FDIC as I said is the early identification and mitigation of risks at our institutions and across the financial system.

And as I've said many times I know to some of you and at the subcommittee meeting, the examination, the conduct of an examination is not the goal of the FDIC. It is a tool of the FDIC in completing its mission.

Now, there are statutory requirements to conduct full-scope onsite examination, but what that means and certainly what that means over time given our technology is going to change and going to evolve.

And what we want to look at is how we can use data, how we can use technology not only to reduce the cost of compliance for our institutions, but also provide a better work-life balance for our employees and to be better supervisors and better at mitigating risk.

So the goal of the subcommittee is simply put that broad.

And we've conducted one meeting where
we looked at sort of the fundamentals of the FDIC, who we are, how we do our mission. Get some sort of FDIC 101 training for the non-banking experts that we have on the committee.

At that meeting, we identified several areas where we want to look more deeply, whether it's our training environment, whether it's how we conduct loan reviews, whether it's how we get data from banks and share data with banks being part of that component.

Our subcommittee is going to divide up, dive in on those particular topics with the goal of informing the FDIC's budget build as we head into 2020 and also ultimately producing a report that this committee could consider as recommendations to produce to the Chairman and the Board so that we can continue to improve and continue to evolve as an agency.

So that is, I think, broadly stated the goal of the subcommittee and I'd be happy to take any questions. Or David, if you want to expound?

MEMBER HANRAHAN: That was a great
summary. I don't think I can add a whole lot to that.

I will say that the FDIC assembled a really good cross-section of people only about one-third of whom are bankers for this subcommittee. I'm honored to serve on it.

And Brandon and Kathy Moe did a really good job at our first meeting level setting for the non-bankers in the room how the FDIC conducts its supervision and examinations.

And I'm sure those non-bankers were working hard to keep up with all of the banking acronyms that we all know by second nature.

By the same token, as the discussion began to turn towards tech, my head began to hurt as I tried to absorb some of the things that the data scientists and technologists in the room began to discuss.

One of the interesting things that Brandon did during our first meeting was show a couple of photographs on that screen of what a typical bank exam room looks like. And it had a
conference table with stacks of loan files this high, and a bunch of examiners huddled around it working hard.

And I said in the meeting probably a little too loud that's exactly what an exam looks like at Capital Bank of New Jersey with our paper, our unscanned paper loan files piled high.

And I think I caught a few eye rolls around the table from the technologists that were there. In fact, the term Luddites kind of came out once. How unsophisticated some of us have been with our lack of loan imaging, for example.

But it's going to be I think a very interesting and important work that the FDIC is doing and I'm proud to serve on the subcommittee.

MR. MILHORN: Thank you. It was very important for us to get a sense of not just from banks like David's all the way up to more technology-driven and larger complex institutions because that is the -- sort of the core of the group of banks that the FDIC supervises.

We come in all shapes and sizes and that
is -- we tried to capture that on the subcommittee. And we have to adopt supervisory processes that take that into account.

MR. DAVIS: Great. Any questions?

MEMBER LEAVITT: I would just say I'm not sure what the variability is in the room among states relative to FDIC and state banking authorities alternating exams, but going to an 18-month cycle for many of us, that means we may not see the FDIC onsite but every 36 months.

I don't know how others are going to feel when I say this, but that's almost too infrequent.

So, this idea of establishing a bridge in if not realtime certainly more frequent batches of exchange of information so that when we do get an onsite it's a meaningful, qualitative process and not simply a validation of quantitative metrics that could be exchanged and fed back and forth in a more frequent cycle.

MR. MILHORN: There's never going to be a substitute for that face-to-face meeting with
your examination team. That relationship is very critical.

But one of the things as I step sort of in from the outside and look at the examination process, I'm struck by the fact that it's very point in time. It's that 18-month cycle. It's those quarterly call reports.

And I think back to my experience in areas like cybersecurity where, you know, 20 years ago maybe we were okay with that annual report on cybersecurity. Then that become a monthly report.

Then we thought well you know, we need to identify risk on a much more timely fashion and moved to continuous monitoring.

And so the question I think, in my mind, is how do you balance that ongoing dialogue, that shared understanding of risk at the institution and with the FDIC.

How do you get on the same page with data without imposing a too significant burden on the institutions where our examination team, our supervisory team can have that dialogue-based
supervision where you're in contact much more often and leading to a very focused examination on only those matters that can't be conducted without data.

And that to me is the key question that we're trying to answer. And then as you roll out from that what's the technology needed, does our training model have to change, does how we're deployed change?

What does the skill set of our workforce look like? Do we need a bunch of people who have experience in finance, or do we need data scientists?

And those are all questions that we're wrestling with in the context of the subcommittee.

MEMBER EDWARDS: So I agree with the comments about -- I hope this doesn't take away from in-person examinations. I think that's important to do that.

I might be able to get by with a three-year visit.

(Laughter)

MEMBER EDWARDS: Not that I don't enjoy
the conversations that we have. I'm just kidding. But having said that, I commend you guys for just taking an absolutely fresh look at this, because I think the more effectively that the FDIC can peer into all of our portfolios on a realtime basis and have an understanding of what's going on nationally, the better able you're going to be able to identify sort of mega trends about what's happening and do your job better, and also help us be aware of trends that are emerging.

So, I'm excited about the process and look forward to hearing how it works out.

MR. MILHORN: Thank you.

MR. DAVIS: Anything else? All right. We've reached the end of the program. Director Gruenberg, any comments?

BOARD DIRECTOR GRUENBERG: I'm good.

MR. DAVIS: Okay. Chairman McWilliams?

CHAIRMAN MCWILLIAMS: I'll literally take 20 seconds. Thank you. I know you have banks to run and you gave us plenty of your time and
phenomenal feedback.

I want to make sure that these committee meetings are as helpful to you as they are to us, and I want to make sure that we continue improving that dialogue.

So Chad will be reaching out to you to get any input on how we can be even better next time.

And again, thank you. I know you have planes to catch and I can't wait to see you next time.

(Whereupon, the above-entitled matter went off the record at 3:30 p.m.)