Appendix B

The FDIC Community Banking Initiative

As the primary federal regulator of most community banks, the FDIC has provided support to community banks under the multi-year Community Banking Initiative. As part of this initiative, we have established the FDIC Advisory Committee on Community Banking to provide the FDIC with advice and guidance on a broad range of important policy issues impacting community banks throughout the country, as well as the local communities they serve, with a focus on rural areas.

The FDIC also has pursued an agenda of research and outreach focused on community banking issues, including the FDIC Community Bank Study, a data-driven analysis of the opportunities and challenges facing community banks over a 25-year period, as well as research regarding the factors that have driven industry consolidation over the past 30 years, minority depository institutions, branching trends, closely held banks, efficiencies and economies of scale, earnings performance, and rural depopulation.[1] We also introduced a Community Bank Performance section of the FDIC *Quarterly Banking Profile* to provide a detailed statistical picture of the community banking sector.

The FDIC has also provided significant technical assistance to community banks. We established a Directors' Resource Center on the FDIC's website that, among other things, contains more than 25 technical assistance videos designed for bank directors and management on important and complex topics. We have revised banker guidance on deposit insurance coverage and conducted related outreach sessions for bankers. We also developed and distributed to all FDIC-supervised institutions a *Community Bank Resource Kit*, containing a

[1] See FDIC Community Banking Study, December 2012, https://www.fdic.gov/regulations/resources/cbi/study.html.

copy of the FDIC's *Pocket Guide for Directors*, and reprints of various *Supervisory Insights* articles relating to corporate governance, interest rate risk, and cybersecurity.

The FDIC also looks for ways to change supervisory processes to improve efficiencies and minimize burdens on community banks. For example, we reduced the frequency of consumer compliance and CRA examinations for small and *de novo* banks in 2013. Previously, small banks (those with assets of $250 million or less) that received a Satisfactory or Outstanding rating for CRA were subject to a CRA examination no more than once every 48 to 60 months, respectively. Small banks with favorable compliance ratings and Satisfactory CRA ratings now are examined every 60 to 72 months for joint compliance and CRA examinations and every 30 to 36 months for compliance only examinations. Additionally, in April 2016, the examination frequency for the compliance and CRA examinations of *de novo* institutions and charter conversions was changed. More specifically, the *de novo* period, which had required annual on-site presence for a period of five years, has been reduced to three years.

We also implemented an electronic pre-examination planning tool for both risk management and compliance examinations. This tool allows the FDIC examination staff to tailor requests for documents and data to ensure that only those items that are necessary for the examination process are requested from each institution. Tailoring pre-examination request lists minimizes burden for institutions, and receiving pertinent information in advance of the examination allows examiners to review certain materials off site, reducing on-site examination hours.

We have improved communication with bank boards of directors and management by reissuing and updating guidance on examination findings[2] to re-emphasize the importance of open communications regarding supervisory findings and to provide an additional informal review process at the Division Director level for banker concerns that are not eligible for another review process. We also improved transparency in the supervisory process, when the FDIC Board of Directors issued two statements that set forth basic principles to guide FDIC staff in developing and reviewing supervisory guidance and communicating supervisory recommendations to financial institutions under its supervision. We also proposed revised guidelines for supervisory appeals to provide more transparency and access to the appeals process. Among other things, these improvements in communication and transparency are intended to avoid the "trickle-down" effect that we sometimes hear about from bankers, and to inform community bankers, in particular, of the avenues available if they feel a regulation or examination process intended for larger banks has been applied to them.

[2] See FIL-51-2016, Reminder on FDIC Examination Findings, July 29, 2016, https://www.fdic.gov/news/news/financial/2016/fil16051.html.