UNITED STATES OF AMERICA

FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE OF STATE REGULATORS

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THURSDAY
MARCH 18, 2021

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The Advisory Committee met via video-teleconference, at 1:00 p.m. EDT, Jelena McWilliams, Chairman, presiding.

ADVISORY COMMITTEE MEMBERS PRESENT

THOMAS FITE, Director, Department of Financial Institutions, State of Indiana
MARY GALLAGHER, Commissioner of Banks, Commonwealth of Massachusetts
BRET AFDAHL, Director, Division of Banking, State of South Dakota
G. EDWARD LEARY, Commissioner, Department of Financial Institutions, State of Utah
DAWN HOLSTEIN, Commissioner of Banking, Division of Financial Institutions, State of West Virginia
CHARLES COOPER, Commissioner, Department of Banking, State of Texas
ANTONIO SALAZAR, Commissioner of Financial Regulation, State of Maryland
MELANIE HALL, Commissioner, Division of Banking & Financial Institutions, State of Montana
JOHN RYAN, President and CEO, Conference of State Bank Supervisors
KEVIN HAGLER, Commissioner, Department of Banking and Finance, State of Georgia
RAY GRACE, Commissioner of Banks, State of North Carolina
I. LISE KRUSE, Commissioner, Department of Financial Institutions, State of North Dakota
GREG GONZALEZ, Commissioner, Department of

Financial Institutions, State of Tennessee
KEVIN ALLARD, Superintendent, Division of Financial Institutions, State of Ohio
MICK THOMPSON, Commissioner, Banking Department, State of Oklahoma

FDIC BOARD MEMBERS & STAFF PRESENT

JELENA McWILLIAMS, Chairman
MARTIN J. GRUENBERG, Director
ARLEAS UPTON KEA, Deputy to the Chairman for External Affairs
SULTAN MEGHJI, Chief Innovation Officer
JOHN ANDERLIK, Assistant Director, National & Regional Risk Analysis, Division of Insurance and Research
DOREEN EBERLEY, Director, Division of Risk Management Supervision
MARTIN HENNING, Deputy Director, Operational Risk, Division of Risk Management Supervision
RAE-ANN MILLER, Senior Deputy Director, Supervisory Examinations, Division of Risk Management Supervision
SHAYNA OLESIUK, Associate Director, National & Regional Risk Analysis, Division of Insurance and Research
MARK PEARCE, Director, Division of Depositor and Consumer Protection
NICK PODSIADLY, General Counsel
CAMILLE SCHMIDT, Chief, Emerging Issues Section, Division of Risk Management Supervision
JOHN VOGEL, Deputy Director, Operations, Division of Risk Management Supervision

C-O-N-T-E-N-T-S

P-R-O-C-E-E-D-I-N-G-S

1:06 p.m.

CHAIRMAN McWILLIAMS: Good afternoon, or good morning for those of you on the West Coast. Welcome to our second meeting of the FDIC Advisory Committee of State Regulators. It's a pleasure to have you here today; and I would like to personally thank you for making the time to join us.

A lot has happened since we last met in October. I frankly don't even know where to begin to cover everything that has been going on at the FDIC and the broader financial services industry, as well as our economy. I would just say that we continue to focus on core safety and soundness principles, capital, liquidity, asset quality, as you are at the state level as well.

You know much about our COVID response. The bank regulatory agencies issued many rulemakings to ensure that banks had the flexibility to support the economy through the truly unprecedented events of the last year. While we're optimistic about the economic outlook, we will continue to monitor conditions in individual regions and appropriately respond to those vis-a-vis our regulations and regulatory approaches. And, I cannot stress enough what a valuable perspective and team players you are to us, frankly teammates in understanding what's going on the ground with your banks and your communities.

One of our primary focuses is to promote innovation; and to create a regulatory environment that will make it easier for small banks to adopt new technology, to become more efficient, and to make their products and services available to a broader array of customers. We just hired our new and first Chief Innovation Officer to lead our FDiTech, our innovation lab. His name is Sultan Meghji, and he is going to be giving us a brief overview today.

I'm really excited about him joining us. He comes to us with vast experience. We were looking for somebody who would be willing to challenge the status quo and break down the barriers. And we found that person in Sultan.

We do have a couple of initiatives underway for our innovation efforts. We have the rapid prototyping to replace Call Reports. And, you have been briefed about that in the past. But, we will touch base upon that again today as well as our proposal to create a standard-setting body to establish standards for due diligence of vendors and for the technologies they develop.

I would say that we have implemented a number of policy changes from the regulatory side to remove barriers to innovation, such as the broker deposits rule that we finalized last December. And, we will continue to focus throughout the year on financial inclusion, and American competitiveness and dynamism, because we do believe that there's an opportunity for us to expand financial services to a broader array of customers, to bring Main Street America into the banking channels of the 21st century, as well as to ensure that our financial sector is the foremost competitive and efficient financial sector in the world.

And with that, I don't want to take away from the true experts in their field. I will turn it back to you, Arleas. And I would just like to say thank you again for making the time, for joining us, and for being willing to share your incredibly valuable perspectives with us today. Thank you.

MS. KEA: Thank you so much, Chairman McWilliams. Before we begin with our agenda, I would like to turn to Board Member, Director Gruenberg and ask do you have any remarks that you'd like to share with us before we start with the agenda items?

DIRECTOR GRUENBERG: Thank you, Arleas. I'll be very brief. One, let me just thank all the Commissioners for taking the time today to meet with us. I very much look forward to the discussion with you and particularly hearing what you all are seeing in your states and localities. I think that'll be of great interest and value to us.

This has been an extraordinary period that we've been working through over the past year. I think there are still communities across the country experiencing and dealing with severe hardship. But there is reason to believe that things are going to turn for the better.

I think there's still significant uncertainty in front of us and clearly areas of vulnerability that I think we're going to need to focus on. I think, particularly, perhaps in the area of commercial real estate. So I very much look forward to your comments today and our opportunity to engage with you and really appreciate you all taking the time. Arleas, thanks a lot.

MS. KEA: Thank you, Director Gruenberg. And let me also add my thanks to all of you. And I'm pleased to serve as your facilitator for today's meeting, and I look forward to working with all of you.

We're going to start the afternoon by turning to the Committee Members for your updates about trends and issues related to the banking environment and the conditions in all of your states. And then after we hear from all of you, we'll also hear from our FDIC staff members who will share their observations. Shayna Olesiuk, Associate Director National & Regional Risk Analysis, from our Division of Insurance and Research is going to cover some observations about the national economy and banking trends.

And then we also have Camille Schmidt, who is our Chief of the Emerging Issues Section in the Division of Risk Management. Camille is going to discuss trends in the risk management practices. So, I'd like to start off our Committee Member discussion at this point with Tom Fite, the Director of the State of Illinois Department of Financial Institutions. Then, Director Fite will be followed by the other committee members. So at this point, Director Fite, I'd like to turn it over to you.

MEMBER FITE: Yeah, thank you, Arleas. Appreciate the invite. I'm happy to pronounce that, I think we have, if I counted right, 14 states represented here on this call today. So you're going to get a really, I think, well rounded cross-country view of what's going on in each of our states.

I'm happy to report in Indiana actually I think I have a lot of optimism. I think there's a lot of good things happening in Indiana. But, we do certainly recognize there's still some uncertain times, much to the point of Mr. Gruenberg, right before I started talking here.

Last time, I think a lot of those states provided thoughts about some geographic, maybe, pieces that would be a little bit difficult in our states. And, we talked a lot about, maybe, population hubs and definitely the larger cities being a place, maybe, where we're seeing the most impact right now, as you would expect obviously in a pandemic-driven financial crisis. That remains here in Indiana as well, but we see most, I think, of our impact in Indianapolis, South Bend, Fort Wayne, down around Louisville, where the population bases mostly reside.

I would say too, I think the vaccination rollout in Indiana is going great. So, we're now down to 45-year-olds, a cutoff, by the way, that I made by six days. So happy about seeing that going well in Indiana.

I'm starting to see, I think, some impact of that in Indiana; and people seem more confident about going out, returning to work, returning back downtown. I'll say, I think, sometimes we can overcomplicate things a little bit and look at numbers and stats. And, numbers and stats are what they are, but sometimes the visual component, I think, means more.

Over my left shoulder here, maybe right on your screen, is a six-story parking garage. I've been watching this parking garage as this crisis has unfolded. Early in the crisis, there was maybe a few cars on the first floor. And, as of today looking across the street, we actually have cars on the third floor.

I think that's probably a pretty good visual for what's happening here as people have been going out, getting vaccinated, becoming more comfortable going back in public. We're returning back to our offices downtown, albeit no place close to what it was obviously before crisis. I'll give you an example of that.

And, Mr. Gruenberg, we're also watching CRE pretty closely in our area. But, a really good example, I think, is the company Salesforce of which most of you, I'm sure, are familiar. Salesforce actually is the name of the top of the biggest building in Indianapolis.

In fact, they occupy, I believe, 36 stories of that building, at least pre-pandemic. And, they announced back in February actually they're going to go fully remote. So just think about that, 36 stories of a 61-story building in downtown Indianapolis, for all intents and purposes, may be mostly vacant.

What that does obviously to the lunch crowd downtown; and all the money that comes in with people that work downtown will be something we monitor very closely. But, probably a trend we're going to see, I think, with a lot of businesses, right, that do or do not return back to their offices and what that means for the economy and larger cities like Indianapolis. We’ve certainly been watching them pretty closely for a long time.

The fun thing for us right now, as you all know, it starts today. Indianapolis is hosting the NCAA tournament. This is going to be great for us, obviously great timing with the beginning of the warm weather season here with our hotels and restaurants being much more visited.

In fact, I've heard some people are having to go as far as an hour away to get a hotel right now. So, we're really looking forward to seeing the kind of money that brings into our economy. I think it's going to be great for Indianapolis; and it should get us really good boost, I think, as we get in now to the summer months which, as we saw last year, was a time when people felt more comfortable either going to outdoor seating or even maybe doing some travel locally with things like little league sports and those things we travel for during the summertime.

A quick update here too, I'll say housing is interesting in Indiana right now. We definitely have a housing shortage. The governor actually recently added this to the five pillars that he's focused on for 2021.

We formed a housing study committee to kind of look into what the housing shortage looks like and what maybe the long-term impact of that is. I'll tell you here too anecdotally, just visually, every field that I drive by on my way to work has a new house being built in it. So, there's a lot of activity there, I think, around the housing shortage; and what it's doing to housing prices and also trying to figure out if that maybe is a blip or a bubble, or if that's maybe a permanent change because you do see in Indiana I think a lot of people originally from Indiana that move to larger cities now moving back to Indiana post-pandemic; and maybe coming back to more smaller town life like we have here in Indiana and the Midwest.

Another trend I've heard, and this one I think is interesting, is Indiana has a pretty stable housing price value. So, we don't typically make a lot of money on our homes, but we also don't typically have a lot of risk. That's changed a little bit right now with supply and demand.

So, I've actually heard stories of a lot of people that are right now selling their homes and moving into a rental house to take advantage of pulling that large gain out of their current value, which I think is good and favorable for home values in Indiana. But, the other piece of that, though, is I'm hearing a lot of people are speculating that there's going to be a foreclosure boom here at some point in time. And, that they will then take advantage on both sides of selling the house they're living in now at a high value, and then, post-foreclosure, try to pick up something maybe at a cheaper price later. So obviously, for the sake of my area, I hope they're definitely wrong on the second half of that bet.

Finally on bank performance, I'll say bank performance in Indiana has been very strong. We had many banks in Indiana have record earnings in 2020. Overall, some of that, you know, is probably somewhat artificial or inflated or maybe one-time based upon asset sizes being hugely ballooned at the end of the year.

By our estimates, it looks like assets are probably about 14 percent year-over-year, from year-end to year-end, 2020 from '19. So, we're looking to see kind of where that settles back in. I do think there is some real growth there. But, some of that, I think, will just kind of throw us back out as the PPP loans pay off; and then also as some of the temporary deposits maybe roll themselves back out of the banks that we regulate.

One maybe word of warning or things maybe for us to look at would M&A, merger and acquisition, activities. I’m hearing still a ton of discussion around that. We're not seeing a spike there yet. But, I'm being told one is coming. The low rate environment that we're living in obviously is forcing banks to become larger.

And dependent upon how much of that growth may be artificial and roll back out, I think banks are going to need to grow to remain profitable at the current rate environment. So, I'm being told that should spur a lot of merger activities, probably in Indiana. And some of that might be pent up interest from activity that would've happened if not for the pandemic.

So, I would applaud you also on your innovation effort. I think it's great. I think you have a great person there in that office. Definitely, in the state perspective, we see a lot of change in the portfolios that we regulate, a lot of different activities from the businesses that we regulate.

And a, we have strong desire, I think, to innovate ourselves as well; and try to keep up with what we do with innovation and within those that we regulate. So I just wanted to take a chance to kind of applaud you on that too and say thank you for your efforts on that front. That's my update for Indiana, and now I'll pass it on to my friend, Mary Gallagher, from the Commonwealth of Massachusetts.

MEMBER GALLAGHER: Thanks, Tom. And, thank you to the FDIC and Chairman McWilliams for the opportunity to represent the Commonwealth of Massachusetts; and the state regulatory system as a participant on this advisory committee. I'll provide a brief update on the local conditions here in Massachusetts in the month since we last convened.

Similar to Tom, there's a sense of optimism here as the vaccine rollout accelerates. Massachusetts is likely to reach one million fully vaccinated residents today, which puts us close to the 25 percent -- close to 25 percent of targeted herd immunity goals. Yesterday, Governor Baker announced vaccine eligibility expansion in the coming weeks to first include those aged 60-plus, then 55-plus, and ultimately, the general population will be able to book vaccine appointments starting April 19th, so just a month out.

Containing the virus has been the primary local focus here. And, the prospect of reaching herd immunity through vaccination by the end of the second quarter is extremely encouraging. The vaccine optimism coupled with relief from federal stimulus packages present a hope that economic damage resulting from the pandemic may be contained.

Mind you, any optimism must be tempered, particularly given concerns surrounding housing and unemployment. The December federal package of the Consolidated Appropriations Act and last week's American Rescue Plan will provide Massachusetts with 800 million dollars towards rental assistance. These federal funds administered locally should go a long way towards staving off a feared housing crisis -- housing and eviction crisis, impacts of which we as banking and lending regulators are closely monitoring.

In addition, we are keeping an eye on unemployment data. Although improved from last summer's highs when Massachusetts had the undistinguished highest levels of unemployment in the immediate aftermath of the pandemic, the figures have come down. But the stark reality is that there's permanent job loss of a quarter of a million workers here in Massachusetts.

Furthermore, the Department of Labor's data indicates concerning disparities for females and minorities. We continue to monitor these trends, as do our banks, and remain concerned about the long-term effects on the economy and the banks themselves. It is simply premature to assess how long or how deep the effects of the pandemic will be, nor how effective the stimulus relief will be on the economic recovery.

That said, as part of the diverse life of the financial system, I continue to have confidence in our banks' ability to manage -- to make sound risk management decisions, which serve Massachusetts well. We currently charter 97 banks, two limited purpose trust companies, plus

58 credit unions, two excess insurers, and nearly 12,000 non-depository licensees. From the standpoint of risk management supervision, I commend our banks for their demonstrated strength and ability to serve their customers, individuals and small businesses alike, throughout the pandemic.

Massachusetts banks were exceptionally strong heading into the pandemic; and thus far they are maintaining strength and resilience. Examinations to date and Call Report data suggests in aggregate that the pandemic has thus far been relatively benign for our banks. As a group, the average leveraged capital ratio over the PCA well-capitalized thresholds suggests a robust capital cushion.

Asset quality is holding up well, but obviously bears watching over the coming months. Earnings are starting to recover to pre-pandemic levels. Mid-year forbearance and moratorium-related activity appears to be abating. We know that our banks continue to vigilantly monitor their portfolios for potential loss. Understandably, certain sectors are more concerning than others given the pandemic's local impact; namely, hospitality, restaurants, arts and entertainment, travel and tourism, and to echo Director Gruenberg, commercial real estate vulnerabilities.

Liquidity has arguably never been higher with the flight to safety as cash holdings and interest-bearing instruments have driven total deposit growth. As for market risk sensitivity, Massachusetts banks were well positioned for the March 2020 rate decline, in part thanks to their advanced diligence. That said, net interest margins have declined and we will keep an eye out for a prolonged decline, particularly as the Federal Reserve continues to signal an extended low rate environment.

Overall, Massachusetts banks have been proactive in monitoring, identifying, managing, and effectively mitigating their risk profiles, thereby supporting the health and strength of the Massachusetts banking sector. While financial metrics appear to be improving and the industry is navigating the pandemic so far relatively unscathed, a reflection of its solid management, one of the biggest risk that has me worried is cyber. Continued information sharing on cyber and IT matters between federal and state regulators is essential.

Our IT and cyber exam team is constantly monitoring cyber risks, and the focus right now is on ransomware given it can strike suddenly and devastate quickly. Our top IT priority in 2021 is working with banks and their boards on ransomware preparedness. I'm proud of our team and the state system for playing a pivotal role in the development of the ransomware self-assessment tool, which was rolled out in mid-October.

As for the realm of consumer protection, our COVID-19 risk assessment and examination approach for compliance and CRA, aims to ensure that banks are complying with the CARES Act and Massachusetts specific Chapter 65 COVID relief measures; and that our institutions are monitoring for fair lending compliance. Our examination team intends to help identify potential risk areas, highlight best practices for monitoring compliance, ensure documentation of policies and procedures, and tracking delinquencies and collection efforts to ensure that anything caused by COVID is not reported to the credit reporting agencies.

Our examinations and public evaluations conducted thus far reflect that most of our institutions are indeed offering COVID relief, either through forbearance, flexible products and services, millions of dollars in donations to community COVID relief efforts, and significant PPP lending. Our banks' ongoing CRA efforts stand to serve as a critical bridge to help our communities through and post-COVID. Our exam posture remains remote, and we have been successful in performing virtual exams.

We remain sensitive to the challenges presented over the past year and feel that our collaboration with our Federal counterparts and our regulated entities has been excellent. As we collectively evolve towards a future of work environment, our continued partnership is most welcomed. The FDIC Northeast Region, under Frank Hughes' leadership, continues to provide a forum for terrific dialogue and exchange of information between state and Federal regulators. We look forward to continuing Massachusetts' part in that conversation. Thank you very much.

MEMBER AFDAHL: Thanks, Mary. Start out in South Dakota just to give a level-set. We have 42 banks with 32 and a half billion dollars in assets. Overall banking conditions are stable, although substantial growth in assets driven by deposits have impacted critical ratios as I'm sure others have seen.

Total assets and deposits year-end 2020 were up over 17 percent from 2019. That had a heavy effect of driving down the median Tier 1 leverage capital ratio, net loans and leases to assets, but also drove down the past due non-accrual ratio as well. So, one thing we're watching, the net interest margin is declining here as well.

So, the search for yield will be something we're watching closing. With all of the stimulus provided to the agriculture sector last year, demand for farm loans is down. That's the primary driver of most of our banks in South Dakota. So, we'll be watching what they do next to generate revenue.

PPP volume, still outstanding, declined from just short of 1.6 billion dollars on June 30th last year to 1.24 billion as of 12/31. So there was some modest decline there in balances. But given the intended short-term nature of those, it hasn't come down as quickly as I'd expected.

On the other hand, loan modifications declined from over 2 billion dollars on September 30th, to 382 million dollars at the end of the year. So, we've had substantial decline in those balances. From an operations standpoint, our banks are mostly back to normal operations given the dramatic decrease in cases in our state.

From a state economic standpoint, our

unemployment rate as of February this year was 3.1 percent, which is a great improvement since the middle of last summer. Just for context, it was 2.9 percent a year ago in February. So, we're almost back to where we were before the crisis. But, obviously, it's not been an even return. Leisure and hospitality is off over 12 percent, and mining and logging is off by 9 percent.

From a state revenue perspective, I think most states have seen a lot of one-time funds provided. So, our legislature just wrapped up their session and dealt with the kind of, I'd say, unprecedented task of spending all those one-time funds in a one-time manner, which in a state of our size was not an easy task. But, I think they made some pretty good long-term investments in the state's future.

Moody's and CNN have a back to normal index. South Dakota according to their graph, we're at about 91 and 92 percent back to normal in comparison to the U.S. average at 81, 82 percent. So, we're trending a little bit above the national average there. But knowing how much of that is real economic activity versus stimulus funds, is pretty hard to tell right now.

As others have indicated, South Dakota is doing pretty well on vaccine rollout. We're currently third per capita in the country, with distribution at about 28 percent people fully vaccinated. From an asset quality standpoint, one thing we're watching that's kind of on an alarming trend is the 90-plus day past-due loans for residential loans held by the GSEs.

They're trending up -- that forbearance period has been extended again. So really, that's an unknown of what's going to happen with these loans. It seems to be a lot of people that are several months behind on those payments. It seems the longer this goes, it's unlikely they're going to be able to get out of that without some kind of uptick in foreclosures.

From an agriculture perspective, old crop prices for corn and soybeans picked up early this year. So I think quite a few producers were able to sell their crop from last year. But they have recently softened again as certain export markets kind of backed away a little bit.

For new crops, though, this would be for crops yet to be planted and harvested, there's more optimism with soybeans and corn based on -- but again, it depends a lot on what China and other large export purchasers do. But so far, soybean exports to China are up threefold over last year. Overall, the soybean exports are up 70 percent over last year to all destinations. So, pretty good news there so far.

The one downside -- big downside risk right now in South Dakota is drought conditions. A hundred percent of the state is abnormally dry, 92 percent of the state is in moderate drought, and then over half of the state is in severe drought-- we have a little pocket of extreme drought. So, not nearly as dry as the very southwest region of the United States, but still dry enough that if this drought level persists, there will likely be an impact to pasture grass, hay, and crop production in this current year.

And then one kind of index I track a little bit just for maybe sentiment as much as anything is machinery and equipment sales. U.S. tractor sales are up 34 percent year-over-year for the January and February period over last year. And, then U.S. combine sales are up 25 percent in that same period.

So this is likely a combination of delayed purchases. We had a few years in a row that were a little bit tougher from a cash flow standpoint. So, I think a lot of producers put off those kind of purchases-- kind of a backlog probably of pent-up demand, but also a surplus of cash from a pretty good fall harvest.

Prices really picked up on increased export activity. Then obviously, as I talked about at the last meeting, our state received a lot of stimulus funds to the agriculture sector. So, I think those two things combined, at least in our state and I assume in other areas, to drive those sales.

A couple wildcards for us, our state just legalized hemp and our plan and rules have all been approved and put in place. So, we just issued some guidance. So we'll likely see for the first time hemp in production in our state.

So we'll be working with our banks to navigate those challenges and uncertainties. And, medical marijuana was also approved. So, that'll go into effect on July 1st with administrative rules to be adopted by our Department of Health later on in the year.

And to complete the hat-trick, adult use is also approved, by voters last November. But that issue has been challenged from a constitutional perspective, and that's currently being appealed to the South Dakota Supreme Court. I'm not exactly where that one ends up, but it's something we're watching very closely.

So, that's kind of the quick wrap on South Dakota. So I'll turn it over to my counterpart, Ed Leary from Utah.

MEMBER LEARY: Chairman McWilliams and members of the FDIC Board, thank you for the opportunity to serve on this Board. I'm Edward Leary, Utah Commissioner of Financial Institutions. Utah has 37 FDIC insured banks with total assets of 363 billion. We had two de novo banks that were approved last year open since our last meeting.

While COVID incidences in Utah are declining and some restrictions are being lifted, there is no return to office authorization for the Utah DFI. Myself and a few members of the management team have regularly worked from the office. However, all meetings and examinations are conducted entirely virtual.

The Utah DFI has a board of bank advisors, comprising senior management of state banks. The board meets quarterly. Based upon some of the recent discussions, the following are examples of topics raised and discussed that I thought would be helpful. As mentioned, cannabis banking and the inability to safely or soundly service those businesses; regulatory expectations post-COVID; how community banks engaged with strategic partnerships; vendor management issues comply with approved processes and procedures; all aspects of PPP loans; the ongoing issues of cyber threats and cyber security; how to treat virtual and crypto assets and currency; community bank consolidation; the increasing pressure on net interest margin; hiring and keeping a well-trained staff. I thought these represented subjects that Utah bankers want to talk about.

Utah economy is doing much better than expected a year ago. In December, Utah had regained all the jobs lost during the pandemic. At that point, I was told Utah is one of two states to do so.

As mentioned in South Dakota, Utah's unemployment rate is currently 3.1 percent. However, concerns are prevalent in housing affordability. Median home value has increased 12.7 percent, December 2019 to December '20. The national average was 8.4.

Also mentioned before, weather and environmental issues continue to adversely affect Utah and Utah banks. From the lack of winter snow, not good for ski resorts, skiers, and travel-related industries, not enough snow packs to sustain our water throughout the year, to summer fires, both within Utah and other western states that adversely affect our air quality. Yesterday, Governor Cox issued an executive order declaring a state of emergency due to drought conditions.

I wanted to also renew a plea to the FDIC from the last meeting that the FDIC do all it can to harmonize and standardize the various approaches between the federal banking agencies on CRA. Yes, CRA desperately needs to be modernized. We would not want bifurcated regulatory standards that could disadvantage state-chartered banks.

The Utah DFI hired eight new examiners in early winter. Testing and interviews virtually was difficult. Onboarding was difficult. We are now dealing with the reality that so much of a new examiner -- newly hired examiners' ability to understand the job of bank examination comes through on-the-job training. As we onboard new examiners in this age of COVID, we are concerned about the absence of that in-the-room training, knowledge, and culture transfer.

In conclusion, I want to thank Regional Director Kathy Moe for establishing and conducting biweekly and now monthly Zoom meetings during the pandemic for the states and federal banking agencies in the West. The coordination and cooperation with the San Francisco Regional Office and the Salt Lake City Field Office has been extraordinarily helpful. Thanks again for this opportunity to address you. I'll now pass it to Dawn Holstein of West Virginia.

MEMBER HOLSTEIN: Hello, everyone and good afternoon or good morning, as the case may be. It is my pleasure to be with you today, and I would like to thank the FDIC and Chairman McWilliams for this opportunity. I'm Dawn Holstein, the Commissioner at the West Virginia Division of Financial Institutions.

Here in West Virginia, the banking conditions remain stable. Our West Virginia state-chartered banks have weathered the pandemic well and have demonstrated their resiliency. There has been no obvious deterioration and they remain very liquid and stable. Our banks continue their participation within the PPP program and have continued to service West Virginia customers and business owners without disruption throughout the pandemic.

One thing I wanted to bring up is the consumer complaint level. That is they have remained very stable through the pandemic. And, I felt like that was a point of evidence that our consumers and businesses are being served by our institutions without incident or any kind of uptick due to the pandemic.

Our office, along with our financial institutions have begun a return to normal operations on a gradual and measured basis. It's kind of case-by-case. As we kind of monitor the cases of COVID and our vaccine rollout, which has been very efficient. I think we're about at 24 percent at least for first dose and about 15 percent second doses.

So, it has increased confidence that we can get out and about a little bit more, and it's just opened everything up. Our restaurants are back to 100 percent occupancy and things like that. So, it has really helped to pick the economy back up.

Our examinations, on that front, we have continued on our regular schedule throughout the pandemic. And, we will continue, though, operating remotely through June 27th of 2021. Then we'll reevaluate a little prior to that to see where we stand.

Everything has gone smoothly with the remote examinations. It has been trying at times with communications and things like that, scheduling meetings and things like that. But, we've all experienced that, all kind of worked through it. I think some prefer it, but I think the face-to-face value still can't be discounted.

And that is our anticipation is to return to that face-to-face examination process when everything appears to be safe for our employees as well as the bank employees.

The economy in West Virginia is also stable and has seen a little bit of positive movement. I heard the other rates of unemployment and that would probably be a wish rate for us here. But, it's all relative, I suppose. Although our unemployment rate as of January was still 6.6 percent, that is about half of what it was at the height of the pandemic. So, it is positive, and that's what I'll take from that.

Also, our tourist and hospitality markets, as they continue to open up, will increase our economy here in West Virginia as there is a heavy reliance on those tourist activities. Overall, West Virginia is doing well, and we continue to remain cautiously optimistic. Our agency, as we have spoke here on some comments of information technology, has always been a priority of our agency. And, I think that really came to fruition throughout the pandemic that our banks were prepared; and they have been very attuned to any of the cyber attacks that might've been related to the pandemic and have been very responsive.

Also, we operate a FinTech sandbox as of midyear in 2020; it was opened. We have had a little activity. I think the pandemic has kind of altered that a little bit of maybe what could've been.

But, we look forward to continuing our dedication to innovation and those types of entities as we move forward and come out of the pandemic. Our legislature also is very attuned to FinTech and innovation. And so we are at mid-session currently and are working through a few small bills relating to those items, trying to do a little cleanup, to make things more clear to attract possibly more entities that want to go down that path.

I really would like to thank the Atlanta Region of the FDIC. Over my time as Commissioner, which is the past five years or so, we have really developed a great relationship of transparency and working together. So, I really appreciate that relationship that we have, and I just wanted to express that here.

Other than that, I think we are holding our own here. We are very, as I said, cautiously optimistic for the future. And as we come out the pandemic, we are all looking forward to getting back to our face-to-face meetings and examinations as we go forth. So with that, I would like to turn it over to my friend, the Texas

Commissioner, Mr. Charles Cooper.

MEMBER COOPER: Thank you. So, I would like to add my compliments to Chair McWilliams for establishing this advisory committee. I know it really helps me to hear what my colleagues from across the country are going through. So, I think it helps everyone.

For background, we have 217 banks that we regulate. And now, for a year, we've been dealing with the pandemic. On March the 16th through proclamation, we gave our banks the flexibility to close all or part of their offices in order to protect public health as long as they continued to serve the needs of their customers.

And, like in other states, this obviously ranged from restricting lobby traffic, perhaps closing down lobbies, diverting customers to drive-through facilities, and in some cases, closing entire branches, directing customers to nearby branches. But as of today, and I did a check yesterday, the majority of our banks have returned to normal, albeit they are observing CDC guidelines.

Most recently, Texas experienced the worst winter storm that we've had in a century that resulted in widespread power outages and extensive periods of loss of power and water damage due to frozen pipes. So, this is estimated to be probably the costliest disaster in state history and the costs are continuing to climb. It also resulted in loss of life of about 50 Texans.

Just like we experienced when we have hurricane issues on the Gulf Coast, our banks rose to the occasion despite the obstacles. To me, it was heartwarming to see and to observe what our banks did in order to serve their customers and their communities. Also, despite this disruption that's been going on for at least a year, we've only received one consumer complaint about the lack of service.

As nearly everyone did, we paused our examinations, our exam process on March 18th through the end of May. We concentrated on working and assisting our banks. We resumed our examination activity in June. All of the examination activity since then has been offsite.

We do believe that we are obtaining the necessary information that we need to properly evaluate our banks. Based on the examinations that we have processed to date, it appears that our banks are doing exactly what's expected of them to serve their communities. And, there has only been a slight deterioration in asset quality.

Obviously, this is due in part to the stimulus package. And, now we're receiving another stimulus package, and certainly that helps. But, we have to closely monitor this situation. As someone said earlier, I'm cautiously optimistic about the future condition of our banks here in Texas.

I continue to be concerned or think that the primary threat to our banks is possibly not the asset quality, and possibly not the pandemic, and possibly not the weather issues. I am concerned about the cyber threat as I think Mary Gallagher mentioned a little bit earlier. This is something we all have to be involved in and work on. It continues to grow in sophistication and intensity. So that concludes my comments, and I'll pass it on to Tony Salazar of Maryland.

MEMBER SALAZAR: Thank you, Charles. Thank you, Chair McWilliams. I appreciate the opportunity to be part of this group and your hosting this and to the FDIC staff. They've all been wonderful to deal with as we go forward.

I guess I'm your local regulator here for you and the Vice Chair. So if you obviously, as citizens, have any complaints or comments or praise, please feel free to reach out and let me know. As you're probably aware, in the State of Maryland, the governor and I'm sure most of the other governors as well, they're all taking steps to focus on protecting their citizens from the COVID. And, everybody has done their different set of balancing calculations.

Here in Maryland, the efforts have been really placed on working on personal protection issues, and that seems to have been successful. The concern was about hospital rates and utilization. Maryland's hospitals have managed to handle the situation and so far, so good.

Trends are all moving in the right direction. You recently saw that the governor and many of the local jurisdictions have started relaxing their restrictions on the citizen activity and movement. So that is continuing.

It is my understanding that in a few short minutes from now, Governor Hogan will be on to discuss some changes in the COVID vaccine, which has also been rolling out. So, we'll see where that goes. And I know that there has been a push in the State of Maryland to make sure that the vaccine distribution is done equitably to all the different populations and ethnic groups here in the state.

So they have an equity task force that's been working on that. That's an important point to the State of Maryland. So, they are doing and working on that.

Our office and many of the state offices as well as some of the banks, are all working remotely. We're handling examinations along with the FDIC and the other federal regulatory teams on a remote basis. And at least from our perspective here, our offices will probably continue to work remotely at least through the spring. My guess is that'll go farther, but I can tell you with certainty that we will be going through till the early summer on that.

The state has been doing well from an economic perspective. Some recent data that I saw suggested that Maryland had at least 85 or more percent of its business in industries that would be considered stable industries and not necessarily subject to a potential disruption from the COVID vaccine. And, I think you're seeing that.

I just had a forum this morning with some of our local bankers from a variety of the areas in the state. The reports back were good; I think that reflects where Maryland is at this time. Like some of the other states, we are seeing improvements in a lot of the state metrics. So, we're happy about that.

In terms of protecting the citizens, Maryland right now is one of the few states with a continued foreclosure moratorium. We're in the process of reviewing that. But, I know the federal foreclosure moratorium lasts through the end of June. We have eviction protections in place that are some of the strongest in the country. And we'll be taking steps to monitor that and make sure that the state can and the citizens of the state can have the smoothest path possible back to normalcy.

Right now, just as a reminder, we don't have a huge number of state-chartered banks. The banks that we do are really what you would consider the community banks. They're small banks. We only have two banks that are over 10 billion, and those just recently hit that threshold. So, they're only slightly over that.

But, be that as it may, the banks are generally operating at this point either back to normal with masking and appropriate distancing - and they're working perhaps with their offices in remote operating mode. Or, they're rotating staff through their offices to limit the risk of COVID.

The bankers have reported right now that they're all having -- enjoying, I guess, to a certain extent -- high levels of liquidity. They've managed that movement to the remote environment very well. Credit conditions, right now, have reported to be good. There is some challenge, though, with the limited mobility and ability to get out and market in the traditional ways for generating loans short of the PPP and some of the other government stimulus programs out there.

Good news, delinquencies are low. Hospitality loans, which there was a lot of concern over given our Eastern Shore and areas out in Western Maryland have proven surprisingly stable right now. So, we're not seeing that as an area that's rising.

I know there is a concern about real estate, particularly in the Northeast, which traditionally has that. But, that seems to be holding up right now as well. Housing starts are up. Housing prices are up. That's good, even in some of the areas that you might not expect. So, we are working in that regard.

The state's legislature and governor, which though held by separate parties are really doing the best they can to work towards one goal of improving the state and helping it go forward and making sure, like I said, that the citizens can navigate through this and come out of the COVID in the best conditions possible. The state passed its own COVID relief package just recently, which will provide much needed funds, both to the small businesses, as well as to the citizens. Governor Hogan just presented today a supplemental budget that included a substantial infusion of funds for eviction prevention and remediation.

There is quite a focus on making sure that those least able to make it through this process receive the help and assistance they need so that they can move forward. Another example of that focus is just earlier this week, the governor issued an executive order regarding the garnishment, prohibiting the garnishment of the recent stimulus funds checks to ensure that the citizens get all the funds that they're entitled to. So, that is the continuing focus here in the State of Maryland.

And our banks have also been working in that regard. The Bank On Program has been promoted by the local association, Maryland Bankers Association. I know that banks are participating in that to make sure that those that are marginally banked or unbanked have every opportunity they can.

Then as I said, our majority of banks are community banks. So they really are the small businesses of the financial services world. I think it'd be fair to say that the comments they would want our federal regulators to hear is not lose sight of that perspective of the small banks.

I know there's a lot of discussion on a lot of large issues throughout there. The climate change issue and how that impacts bank regulators and how that gets banked in. Certainly an important issue, which just by way or by aside, we are looking at at the state level to make sure that we're participants in that and we understand how that affects us. But, when you're a small community bank like a lot of the ones that we have in Maryland, I think the risk that they're really seeing is in how to deliver financial services and how to counter and recognize the threats from nontraditional providers, the FinTechs of the world and things like that.

They are -- if our small community banks are to be what we'd all consider to be the gold standard in financial services and delivery, then we make sure that the policies that are instituted are all conditioned and sensitive to their positions in the marketplace. And, I was happy to hear that Chair McWilliams at the beginning talk about some of her initiatives because I know they're directed towards that. But, some of our smaller bankers in the state did want to make sure that that perspective doesn't get lost.

I also, in finishing up, want to say and compliment Frank Hughes and the New York team. We appreciate the communication that we've had; and the ability and the opportunities that they've set up for us to communicate as a group and to communicate individually. That really has been very valuable to help during this time when we're all kind of balkanized to a certain extent working remotely.

Beyond that, I look forward to the discussion later today and hearing from everyone else. I will turn it over now to Commissioner Hall from Montana. Thank you.

MEMBER HALL: Good afternoon, everybody. I thought I'd start by providing the counter to Commissioner Fite's world with a bit of a tale of two cities, Indianapolis and Helena, Montana. But, it's important to keep in mind that the tallest building here in Helena is about five stories tall. So, it will be a little bit of a tough comparison.

However, where Indianapolis is trying to figure out what to do with all of the vacant commercial and office space that companies are abandoning downtown as they move to remote work for the long-term, Montana is sort of struggling with the opposite problem and that is to keep up with housing for all of those people who no longer have to live in Indianapolis, and can instead move to Montana. Montana has seen a tremendous growth in housing. It had the largest year-over-year purchase growth at 56 percent compared to the nationwide average of 24 percent.

Montana had a significant affordable housing program long before COVID. Housing materials can be very expensive to get here, and so housing costs are traditionally quite high. On top of that, this problem has been exacerbated by all of the people who are leaving wherever you are and coming to where I am, who still believe our housing to be incredibly affordable given the markets that they're coming from. So, we have had tremendous housing price increases during 2020 and into 2021. And, it will be interesting to see how that continues this summer.

Probably the most interesting thing -- and I'm going to keep my comments pretty short today -- that we're watching right now is how our state legislature will decide to spend the 3 billion dollars that is Montana State's share of the recent stimulus funds. Our legislature is only here for a couple months every two years. So unlike some of you who deal with them all the time, they're really very infrequently here. However, they are overly excited that this money has shown up while they are here, or will be showing up while they are here, and that they will get to play a role in dictating how it is spent.

I know every state is getting different amounts of money and it's all a lot of money. But, I will tell you that 3 billion dollars in Montana is a tremendous amount of money. It is going to make -- and the spending of it is going to be fascinating. And, I'm not sure that our legislature has ever been in a position to make decisions like this previously.

Overall, I guess Montana and its financial service providers are doing pretty well. We continue to watch declining capital ratios due to asset growth as we consider it incredibly important to make sure banks are planning for the fact that this growth seems like it's going to be longer term than what's thought. Clearly, state and federal programs have been largely responsible for this asset growth and, quite frankly, for the health of loan portfolios.

But, it doesn't really matter to me why the growth is happening. What we're asking banks to do is to focus on the effect of the growth. We're not talking about ratings downgrades. We're not talking about anything punitive here, but to make sure that they're taking the steps that they can take to actively manage the situation to rebuild those capital ratios in a way that's appropriate to the risk.

I think we all kind of hung in there for a while thinking that since the beginning, we've all been kind of waiting to see how long this would last. At this point with the recent programs and the length of the runway, I think that a lot of this is here to stay. And, we need to make sure that the institutions that we supervise are treating it in that way. That they are doing the things that they need to do in terms of restricting some dividends or retaining additional earnings in order to make sure that they are -- that their capital ratios are in a solid place in the event that we do begin to have some sort of an economic downturn associated with some of this.

So thus far, Montana is doing great. We're rocking along out here. But we are sort of paying attention to some of these things and going to watch -- I mean, I really think our legislature should just all wear shirts that say, we're rich, because I'm pretty sure that's how they feel right now. Thank you. And I am turning it over to Commissioner Hagler.

Actually, that's really untrue because Commissioner Hagler just ended up having technical problems. He sent me a text. So I will jump over Commissioner Hagler to my buddy, Ray Grace. Hopefully. Ray, where are you at?

(No audible response.)

MEMBER HALL: I mean, if I have to, I'll just keep going down the list. Lise?

MEMBER KRUSE: I'm here.

MEMBER HALL: Alright. Why don't you go ahead and we'll come back to Commissioner Hagler and Commissioner Grace. Maybe it's like a Georgia, North Carolina problem or something. I don't know.

MEMBER KRUSE: Yeah, I think there's a little delay, but I will go next. I'm Lise Kruse, and I'm the Commissioner in North Dakota, and I supervise 63 community banks with about 30 billion in assets. Obviously, I'm similar to South Dakota and Montana that we are a smaller state.

Overall, the condition of North Dakota's banking industry is still healthy. With considerable exposure to the agricultural economy, we were grateful for a good year last year for our farmers. And our banks have a lot of liquidity at the moment, and that's just due to less loan demand from agricultural producers, but also due to the PPP loans and some of the pandemic-related relief.

So, the economic relief and assistance provided to our citizens and small businesses during the pandemic has helped the overall economic well-being in our state. But, we have yet to see a widespread negative effect from the pandemic on our banks. The hotel industry is where we see the most pressure due to reduced travel, but there were recently some grants available in our state for that sector, so we're hoping that that will help.

Our banks have been able to stay open, and we do still have a few locations who are limiting lobby access. They're still continuing to serve their communities. I have not had any complaints during the whole pandemic where citizens have not had access to their banking services.

Our exams have continued without pause; and the remote exams are going really well. And I have received positive feedback from our institutions about the remote exam process, both when they talk about FDIC and when they talk about the state. So, I believe that will be very helpful with that feedback as we evaluate our future exam processes. I anticipate, at least for our state, that even when we get back in person, we may not need to send an entire exam crew to the bank. And, that should help for our examiner turnover because that's always been an issue due to the excessive travel because of the distances in our state.

What has helped our economy overall is that our state never shut down in the last year. Any restrictions that we have had are now gradually being removed. At this time, COVID contagion is low and vaccines have been distributed effectively. I believe we are around 25 percent of our population that has been vaccinated at least once. And, I actually got my first vaccine today, so I'm excited about that. I feel like it's returning then to normal.

But then also on another personal note, I just wanted to extend my appreciation to the FDIC and just express my gratitude to your staff. And Chair McWilliams, it really goes to your comments in the beginning about being team members. Just to give you a little bit of context, I recently reached out to your Resolutions

Division for advice on bank failures and structuring of our law here locally.

As you may be aware, we have not had a bank failure in 30 years. And, as a result, our statute guiding bank failures was outdated. I wasn't here 30 years ago, so I wasn't quite sure how to go about looking at our law.

So we ended up redacting the whole chapter, introduced a new chapter in our law just in case we ever need it. I hope we can go another 30 years. But, I would not have been able to tackle that without the help from the FDIC.

Your staff provided such great guidance and direction, and I just really appreciate that I could reach out like that. And, I really find it also comforting to know that we can coordinate as a state and the FDIC and we can work together for the benefit of our community banks and citizens on important issues.

That concludes my remarks. I will allow the other Commissioners to get their technical issues resolved. So, I will just go on the schedule, and I would like to turn it over to Greg Gonzales in Tennessee. Thank you very much.

MEMBER GONZALES: Well, thank you, Chairman

McWilliams, Director Gruenberg. And I also want to say thank you to Regional Director Kristie Elmquist for the partnership that we have with the Dallas Regional Office; it's very good.

The condition of the Tennessee banking system remains strong. While the overall risk profile of institutions has increased, risk management practices appear sound, satisfactory capital and earnings performances. Some CAMELS components ratings have adjusted both upwards and downwards. But, both component and composite ratings have remained relatively stable overall. Certainly federal, state economic relief has impacted the health of our economy, and, therefore, the Tennessee banking system to a significant extent. We'll have a better understanding of conditions somewhere further down the road.

The Tennessee banking system is primarily state-chartered; and it has consolidated considerably in recent years, but has grown significantly as well due to multiple conversions from a federal to a state charter.

We're very interested in the strategic planning that our banks are going to be going through. I'm going to be sitting in with one of those strategic planning sessions here soon; and looking forward to hearing how they're going to go about adapting to whatever the new normal may be.

We've heard some concern over increased taxes coupled with an already compressed margin as to the impact on capital and growth. We're going to be watching the housing market closely. We'll see how things develop once a hot market cools off somewhere in the future. We've had some pockets of appraiser availability issues, but a good dialogue between bankers and appraisers has been established over the last couple of years. That's going to be beneficial to us.

With regard to commercial real estate, while we do have a small number of banks with non-owner-occupied CRE in excess of 300 percent, it appears that the system as a whole is well diversified. And while there may be some banks with hotel or restaurant loans that they're watching pretty closely, there doesn't seem to be a large loan concentration at the majority of banks and industries directly affected by COVID.

One example for us is in the hospitality, travel, and tourism sectors, which are very important for Tennessee. Clearly, there's been an impact to the state, but a bright spot is in East Tennessee. One of our state banks reports that tourism in the Smoky Mountain area has been resilient and in some ways extraordinarily so. It's a good story, especially coming just a few years after the mountain wildfires. The Great Smoky Mountains National Park actually had one of its largest number of visitors on record in 2020.

Another important development for the state including our banking system is Governor Bill Lee's broadband initiative. Broadband accessibility, as you know, is a key to thriving communities, especially in light of greater reliance on virtual activity such as online banking. This is certainly going to help innovation in Tennessee.

I do think the so-called digital divide between those citizens with broadband access and those without, who are often in rural areas, has been magnified over the last year and certainly impact access to banking services for some of our citizens.

Governor Lee is proposing that, based on the remaining unserved portions of the state, a one-time recommended 200 million dollar appropriation will build high-speed internet access to virtually all homes, schools, farms, and businesses in Tennessee within five years.

One response from our department is what we've done from an IT regulatory standpoint. About three years ago, I established a position to lead our regulatory IT operations department-wide. We're now expanding a team around this person to enhance our regulatory capabilities in the IT area. Related observations that we're still seeing quite a bit of branch activity despite what's happened over the last year.

Finally, when I think about banking conditions in Tennessee, I think about banking services, especially to those citizens who may be the most vulnerable in this environment. Tennessee is home for minority depository institutions, including the oldest continuously operating minority bank in the United States. At Governor Lee's direction, we are enhancing our partnership with minority institutions to help support the communities that they serve because there are historic opportunities for these institutions to receive both private and public support.

We are expending time and resources to assist these institutions in taking advantage of these opportunities. With that, thank you, Chairman, again for bringing this group together. I'll just keep this in order as well and turn it over to Kevin Allard in Ohio.

MEMBER ALLARD: Thanks, Greg. Good afternoon, Chairman McWilliams, Board Member Gruenberg, and FDIC staff. I'm Kevin Allard, Superintendent from Ohio.

I'm pleased to report out this afternoon regarding the status of Ohio banks. Ohio banks remain strong through the pandemic, although declining median Tier 1 capital ratios stood at 10.6 percent at year-end, even despite significant deposit and asset growth.

More importantly, we have not seen any significant asset quality deterioration to date. In fact, Ohio banks, with regard to 4013 deferrals, saw a decline of 91 percent in these deferrals since this information first started being collected.

Obviously, the other trend we're paying attention to is compression in the net interest margin. Ohio banks are not immune to this trend. Ohio banks' median net interest margin stood at 3.38 percent at year-end and a ROA reported at a median of 82 basis points.

With regard to corporate activity, a couple things to note. Like others, we are seeing consolidation in the state as a result of merger activity, especially in the early part of this year. Secondly, we are seeing our institutions pursue new opportunities in new markets by opening branches or pursuing branching opportunities. Thirdly, we had Ohio's second de novo bank open on February 22nd, and we have a third de novo bank that is in the organizational phase hoping to open this spring.

Lastly, we have had some very recent interest in MDIs in Ohio. And, obviously, we are very supportive of that effort. With regard to banking and the need to innovate, in Ohio, we've tried to be very proactive on this front, fostering an environment that encourages prudent innovation. As examples, we have used multiple banker outreach opportunities to provide information to Ohio banks with regard to prudent innovation and prudent risk management considerations.

Internally to help keep us informed in terms of technologies that are happening in the marketplace, over a year ago, we formed what we call our Technology Advisory Group or TAG. Our TAG is made up of CIOs from some of our more innovative banks and credit unions, and we have involved our federal partners in this effort as well. This group meets three times a year and has discussed such topics as what we call disruptors or hindrances to innovation, cybersecurity, data governance, and more recently, supply chain threats.

Thank you, Chairman, for your comments with regard to banking and innovation and the need to innovate. Like many of my peers in Ohio, we have an advisory group, the Ohio Banking Commission. At our Ohio Banking Commission meeting last month, we did have a discussion with regard to banks and innovation, and several of our members suggested that regulators should collectively possibly revisit existing guidance around this area, especially with regard to bank innovation and more specifically bank-FinTech partnerships. These members have suggested that perhaps regulators could collectively go back and use existing vendor management guidance as a baseline and build out that guidance so that it is more beneficial to an ever evolving bank-FinTech partnership environment.

With regard to future examinations in Ohio, especially post-pandemic, we are discussing internally what the hybrid offsite/onsite examination model would look like, including establishing criteria for when we feel we need to go onsite. We will continue to engage our federal partners at a local level in these conversations so that Ohio bankers can continue to benefit from the seamless supervision of banking in Ohio.

Chairman McWilliams, that is my report this afternoon. I thank you for the opportunity, and I'll turn it over to my peer, Commissioner Thompson in Oklahoma.

MEMBER THOMPSON: Thank you very much. This is Mick Thompson, Bank Commissioner in Oklahoma. And I'd like to thank the Chairman for establishing this FDIC Advisory Committee. I think it's very beneficial to the state system.

As far as Oklahoma, we started reopening the state back in June and phased it in. And, it's worked very well so far. Our state budget is about 14 percent above the certified amount, which was certified back in December, so the state is doing very well.

We had a program that we worked with the Department of Commerce with, with the state Banking Department, set up a program for small businesses. We're talking about one, two, three-person businesses to do, through the Department of Commerce, a grant program to help those businesses. We issued over 100 million dollars in small loans to -- small grants to those.

As far as examinations, we really never stood down. We worked with our banks. But, we started doing remote back March 19th. We're current on the exams and have not had any issues working with the banks.

We plan on looking at going back into the banks sometime probably in the summer because we surveyed every bank that is up this year. For an exam, every one of them without question wants us to be back in the bank in some form. So, we'll start sending back in, on a limited basis, some of our exam team onsite sometime this summer.

We've had great asset growth this year. Banks have had a good year. But, I would agree with Mr. Gruenberg that we're focusing on commercial real estate and looking at a proposal in a year or two what's going to happen with all these empty buildings as people continue to do more and more telework.

I want to thank the Chairman and her team for all working together in support. We have a great relationship with Dallas FDIC; and we couldn't have a better working relationship than we have with them. I look forward to the continued relationship to protect our consumers. And, most everything that everybody has already talked about, I won't bring it back up. It seems to me that the state is doing very well under the circumstances.

With that, I'll turn it back. I don't know if you're going to go back in order or whether the Associate

Director is going to speak now.

MS. KEA: Let's go ahead and see if Commissioner Grace is able to join us.

MEMBER GRACE: I am here. Can you see me and hear me?

MS. KEA: We hear you fine. I think --

(Simultaneous speaking.)

MS. KEA: And we see you.

MEMBER GRACE: Okay, good. Thank you. I guess that's a good thing. But at my age, I'm not really sure anymore.

Chairman McWilliams, Director Gruenberg, thanks very much for the opportunity to address the group today.

I thought I'd start with just a brief overview by way of giving some context about North Carolina banks. We currently have just 40 state-chartered banks. North Carolina was heavily hammered by the consolidation trend years ago. This is near a record low number of banks for us.

The smallest of our banks is the Unit Savings Bank in rural eastern North Carolina, with just over 15 million dollars in total assets; and our largest bank is, of course, Truist Bank with total assets of 496 billion dollars and nearly 2,800 branches spread across 17 states and the District of Columbia. Currently, we have 11 banks greater than a billion dollars in total assets. And, these banks are serving markets that range from small rural agrarian communities to metropolitan, fairly large cities such as Charlotte and Raleigh.

At year-end 2020, our aggregate total assets under supervision were 589 billion dollars. That's up 10.7 percent year-over-year. Aggregate total deposits, 472 billion dollars, up 16 percent year-over-year; aggregate equity capital, 74.3 billion dollars, up 3.6 percent year-over-year. And, the aggregate capital ratio for our banks is 12.53 percent, which is down from 14.63 percent year-over-year for reasons that I think have already been clearly demonstrated here.

Aggregate earnings have slipped from 0.63 percent on average assets in 2019, to 0.53 percent for 2020. The key to this, as we can all guess, was a slim net interest margin, 3.29 percent down from 3.8 year-over-year. Overall, our state banks have navigated the pandemic surprisingly well. They participated in a robust way in the PPP program, although in round two, we note consistently that demand for PPP loans is falling and the average size of those loans is also falling.

We've conducted 15 examinations during the pandemic from March to current date. Over those examinations, we're pleased to note that there was one upgrade in CAMELS component - composite and no downgrades. We have no four rated banks or worse.

I think it's fair to say the North Carolina banks are strong. They're well managed and well capitalized. Asset quality appears to be strong, although we have obviously reason to have some questions about that. And, our banks have been creative and resilient in serving their customers with minimal disruptions.

Assets and deposits grew, although, of course, PPP lending provided a significant offset to the soft -- relatively soft organic loan demand we've seen, as well as a fair share of deposit growth as many of our PPP recipients parked their loan proceeds in banks and did not spend them. A thin net interest margin largely attributable to protracted low interest environment driven by a monetary policy is probably the most common complaint I hear among our bankers and has contributed to soft earnings. This is a particularly difficult problem for our community banks as they often can't offer the sort of services that generate non-interest fee income to offset soft interest income.

On a positive note, our Bankers Association has established a DEI council to work on programs to bank the unbanked. And, I've heard high praise for the FDIC's DEI policy which is being used by our North Carolina Bankers Association as a guide for their program. I've also heard particular praise for Victor Galloway, with whom they've been collaborating. All of our banks now participate in the Bank On Program.

What are some of the things we're concerned with? I've had multiple conversations with bankers in the last several weeks as well as my fellow colleagues here at my agency. In no particular order of importance, they are as follows: uncertainty over the future of the economy, huge federal outlays, despite strong indicators of a rebounding economy, bring fears of another bubble such as 2008 or of rampant inflation.

Monetary policy and continued easy money reinforce these concerns. Are we embracing, at last, modern monetary theory? Adjustments to businesses and consumers as we return to a, quote, new normal, unquote; for example, commercial real estate, especially office and retail space, will bricks and mortar utilization be sharply curtailed and what will this do to values of these properties?

The cranes are swinging noticeably in downtown Raleigh where my office is located and similarly in Charlotte and other North Carolina cities. I'm a little worried at the number of high rise commercial buildings that are going up with office space and residential construction. I'm wondering who's financing that, and I've instructed my people to be very attentive to that as they conduct examinations because I'm worried about sort of an intuitive feeling that demographics are shifting.

The millennials who love to live downtown with the urban lifestyle are, contrary to what was previously said about them, now beginning to buy houses out in the suburbs as they grow up and marry and have families. That is driving up residential real estate prices in the suburbs and some outlying communities to pretty extraordinary heights. The prices are typically now super-heated. And, when a house goes on the market typically in the Raleigh area or the Charlotte area, it triggers bidding wars. Most homes sell very quickly at some positive multiple of the listing price.

One phenomenon we're watching carefully is the accelerated use of mobile banking platforms. My concern there is that obviously the COVID pandemic has accelerated the trend toward mobile platforms. That was already well underway. My fear is that some of our smaller community banks will have difficulty keeping up with that technology.

There's considerable concern about whether there will be significant changes in the regulatory environment. For example, will there be a return to more rigorous enforcement, especially in the areas of consumer regulations, and CRE, and climate change?

Finally, I was glad to hear a couple of my colleagues echo some concerns that I have and had a conversation with one of my bankers about this morning and that is cybersecurity.

I'm wondering if it's now time to push banks into buying a more secure defensive system. I think it's a bit discouraging to hear that some of our banks are reluctant to spend the money it takes to upgrade their cybersecurity. But, this is an existential and immediate problem, so I think we may need to become more aggressive here.

Finally, I'd like to reiterate the economy. In that regard, if I might, I'd like to close with a comment by one of my favorite economists, Thomas Sowell, who wisely said, "The first lesson of economics is scarcity: there's never enough of anything to fully satisfy all those who want it. The first lesson in politics is to disregard the first lesson of economics."

As an old regulator who examined and supervised banks during the hyperinflation years of the '70s and early '80s, the dot-com bubble, and the Great Recession of 2008 to 2012, that echoes with me today. I'm worried that although short-term economic indicators look very bright indeed, I'm concerned that we'll have a sugar high from the volume of money that's being dumped into the economy in the face of what already appeared to be a robust recovery. And with that, I will conclude my remarks with thanks for the opportunity to address you all.

MS. KEA: Thank you, Commissioner Grace. Before we end this roundtable of our members, I would like to go back. I think that Commissioner Hagler might be on the line with us now and would like to give him an opportunity.

MEMBER HAGLER: Thank you. Can you hear me now?

MS. KEA: We can, yes.

MEMBER HAGLER: Thank you so much, and I

apologize for the complications on my end disrupting the flow today. One of the complications of having a lot of folks on my team working remote is that the VPN network with them moving files back and forth seems to have spiked during our conference call today. So, can't win for losing sometimes.

But thank you again for the opportunity to speak today, Chairman McWilliams, Director Gruenberg, and my fellow members of the Advisory Board. I'll try to keep it short and sweet because so much of what has been said, I was able to check off my comments as we went along.

Georgia, as a state, is doing very well. State revenues for 2020 were actually higher than 2019, which I don't think is unique to us. The unemployment rate is trending down, and it is below the national average. Those kind of statistics, though, do worry me because I think it sometimes overlooks the disconnect of folks that have dropped out of the workforce.

I am particularly worried about that being disproportionate on the women in Georgia. From what I heard in the environment but also from what we've experienced within our own banking department here, we've had folks that have had lack of childcare and schools that were not open or available for them to return. Unfortunately, a lot of times it's the women, the moms that have to stay home to become teachers and such.

I think that's been common amongst a lot of departments. But we've lost a couple of very valuable members that just could not stay with us no matter how much we tried to be flexible and allow them to work various hours. At the end of the day, they just can't work 24 hours a day. So, I'm hoping things will normalize and we get those folks back in the workforce as well very quickly.

COVID cases are trending in the right direction for us. I think last week was a 34.1 percent decline. So, that's very positive news that we're excited about. Georgia dropped the age threshold down to 55 and opened it up to a lot of different medical conditions. Now we've swung back to the can't get appointments problem. But I think a lot of shots are getting into arms very quickly. So, that's very helpful for us.

Just to kind of lay the groundwork for our banking portfolio, we're at 125 banks and 120 billion dollars in total assets. The portfolio is also doing very well and, again, has shown improvement in 2020 from 2019. I don't think we've had any significant downgrades of any components. It's largely been upgrades. Some folks that were having a hard time are getting off to a new start as a de novo, really got a shot in the arm with the PPP lending. So, that has helped out well.

The challenges, as had been well discussed today, is the high-level liquidity and cash in the banks. Thank goodness we had very high capital levels coming into this. But, with the deposits and the corresponding asset growth, it's really impacted the banks. Not to a point of concern quite yet, but it is just pouring on.

It seems like half of the PPP loans that have been originated have not been dispersed. They're just sitting in accounts at the banks. Compound that with, again, more good news, the American Recovery Act providing monies for state, city, county, and the school systems. I think by last calculation, that's about 12 billion dollars that's about to hit our banks in terms of funding coming in and being held until a lot of decisions are made on how to deploy those funds.

So, bankers are kind of gritting their teeth and bracing for that impact, which normally wouldn't be bad. It's just that it's difficult to find good lending opportunities that has anything other than a super thin price right now, so a little too much of a good thing. As you can imagine, net interest margin compression is a real issue. Again, at least the PPP lending was helpful to give a lot of folks a boost as well.

Another complication, but one that's good for consumers, is that there's been a pronounced drop in NSF fees at banks. That speaks well for the consumer. But for the bank, it means we've got compressed interest, net interest margin as well as a drop off in fee income. So making it a little challenging on both sides of the equation.

Having had an opportunity to speak to one of our small dollar lenders the other day, not a bank, but they deal in loans under $3,000, and they had mentioned that all of 2020 their portfolio had not increased at all. In fact, it had just simply been getting paid down throughout the year to give you an idea. It's kind of like traditionally they would see this occur as we get into the income tax return time. But, all of 2020 has felt like an income tax return time for them. So good analogy in that the funds are getting into the hands of consumers where they need to be.

Still watching the hotel and restaurant

industries. I think their plight and challenges has been well documented. Coming to the conclusion similar to what Greg Gonzales had come up with in that I don't think a lot of those projects were financed at banks.

Restaurants, I imagine a lot of that -- not imagine, but I know a lot of that was SBA guaranteed. A lot of them have been able to reinvent themselves with takeout and delivery to keep the doors open and keep things going. I don't think restrictions were quite as severe here in Georgia as they were in some other areas. So that may have helped as well.

In terms of hotels, they too have cut expenses to try to help out with the revenue. And most of our banks dealt with most of the better flag institutions, hotel chains. So again, not seeing that as bad as I might have expected.

One anecdotal story I thought I would share was one of our larger banks that had a fairly, healthy sized hotel portfolio rightfully thought to right-size some of that while they could. Even though these were struggling hotels, the discount that they took to move that portfolio off their balance sheet was much smaller than I would've ever expected, and I think the same was true for them. I think they were very happy with their ability to move that. So again, I think it speaks well to future prospects of earnings for that industry.

Overall, bankers have a couple of challenges. One is how do they do a 2021 budget with last year being such an anomaly with the inflows of funds and such - net interest margins being like they are. So, I think they're really struggling to get those 2021 budgets put in place.

And then also I think they're a little nervous about maybe losing some of the regulatory relief that they got in the last several years or maybe just the pendulum kind of swinging back the other direction. Bankers generally are very happy to comply with whatever rules and regulations are in place. I think it’s just the changing nature of those that makes them nervous because it's difficult in a small community bank to keep trying to adapt. I'm hoping that our efforts to right-size regulation and create relief for the community bank portfolio out there will continue and survive.

As Tom kicked off the report outs, mergers is a big concern of mine. I think we've been averaging, since the Great Recession, probably about ten a year and last year we had about six. Whenever I talk to bankers or banking attorneys, there is a lot of interest in activity on either being the buying side or the selling side or both.

So I think the demand there is being pent up, and there's a lot of cash in hand. So I'm afraid that as we clear out of the pandemic, we're going to see a fair bit more and maybe even a surge of merger activity. That's always a concern for me.

Also, several of my counterparts mentioned that the legislature is in session. Same here for us. One thing that I just thought I would mention is our housekeeping bill has passed. And for our banks, what it did is clarify that they can conduct board meetings remotely or some type of hybrid meeting.

That's been available under the governor's executive orders. But the Georgia law was a little vague on that otherwise. So we just suggested that that be clarified in the law. So I think that'll be helpful to our bankers and their board members.

That'll conclude my report out. Thanks again for the opportunity, and I look forward to the rest of the program. Thank you.

MS. KEA: Thank you so much. And, let me just say thank you to all of our members for providing your observations and trends from each of your geographic regions. I'd like to invite my FDIC colleagues, Shayna and Camille, to both turn on your cameras now and provide your observations and reactions to some of what our Commissioners have talked with us about. Shayna and Camille?

MS. OLESIUK: Great. Thank you, Arleas, and thank you to all of the participants. I've really enjoyed the information and insights that I've heard today. So, thank you very much for that.

I'll spend just a few minutes talking about some of our team's observations from a national viewpoint. I think the themes boil down to two things, which I've heard both of them mentioned already today. First, the improved economic conditions and the resilience of banks during the last year. And, secondly, the continued uncertainty on what the post-pandemic economy will look like and what implications that has for our major lending portfolios at banks, particularly commercial real estate.

First off on the economic conditions - so things have certainly improved since we met last October. GDP growth in fourth quarter 2020 was four percent, which in itself is pretty good. And, the current consensus forecast for the full year of 2021 is for 5.7 percent growth, even better.

Of course, this is coming off of a relatively low base in 2020, and is really being boosted by the fiscal stimulus. And we're already seeing strong retail sales and strong consumer confidence in the first few months of the year. So, the consensus is that we will reach pre-pandemic GDP levels by third quarter of this year, but some of the more positive outlooks put that at second quarter. Certainly a story of recovery there.

The story is a bit different for employment. Taking a step back to the second half of last year, job growth was positive through the second and third quarters, but relatively slow. And, it actually dipped negative in December.

But, the trends have certainly turned around. As of February, we beat expectations with a net gain of almost 400,000 jobs. So, that was very good news.

But despite that good news, it would take more than two years of job growth at that level to get back to our pre-pandemic employment levels. And as we heard several times today, the leisure sector is still the hardest hit sector. It's down still about 20 percent, or three and a half million jobs in the whole relative to February 2020 levels.

The employment -- the unemployment rate and the unemployment story is similar. Unemployment has come down significantly from the highs last April, but still remains elevated relative to where we started the pandemic. And, unemployment is elevated in all states across the country.

No region has really escaped this trend, and it's particularly still elevated in the Northeast and the West. And also, as I heard today, we also look at other measures of unemployment, such as what is known as U-6, which measures those individuals who are not working because of poor economic conditions. And this U-6 number still remains at 11 percent in January and February of this year, so still relatively elevated.

Just a few comments about commercial real estate and then I'll pass it over to Camille. Commercial real estate is high on our list of areas that we're watching. Conditions are still challenging for essentially every segment of commercial real estate except for industrial.

One of the indicators that we look at is property prices. And, property prices are down around ten percent from pre-pandemic levels. But, relative to what we saw in the Great Recession, things actually look better than that.

Prices during the Great Recession were down about 35 percent. So even in the hard hit retail and lodging sectors, prices are not down as far as they went in the Great Recession. So, I think that's important.

Of course, there is lower transaction volumes during the last year or so. We may have some uncertainty on these prices. But, so far, it doesn't look as bad as the Great Recession. So with that, I will turn it over to Camille to talk through some banking conditions and supervisory viewpoints.

MS. SCHMIDT: Alright, thank you, Shayna, and thanks, everyone, for the information you've provided today. It's been interesting. I'm just going to start expanding on some of the pandemic-related risk management trends that many of you have kind of alluded to.

When we look at institutions with layered risk or known exposures to the industries and economies most affected by the pandemic, our FDIC staff is recording that the overall risk profiles and asset quality risk profiles, have declined slightly since this summer. However, case managers and examiners are reporting an increase in watch list and criticized asset volumes at some of those institutions most impacted by the pandemic.

The most significant increases for those institutions under ten billion in total assets are in the New York and our San Francisco regions and the least are in the Kansas City region. At larger institutions, most of the increase in problem loans is in the special mention category. Institutions with total assets under 250 million, which some of you talked about, and institutions in rural and micropolitan areas are reporting less adverse impact on watch lists and criticized asset volume than their larger metropolitan bank counterparts.

Bret and Kevin talked about loan accommodation levels declining, and we're seeing similarly a substantial decline over the course of the pandemic. And this is true across banks of all sizes, across all of the regions, and in all location types, whether it's a micropolitan, rural, or metropolitan area. The most common deferral extension periods remain short term. They're typically two to six months. And, the CRE and the C&I loan portfolios continue to have the most loan accommodation activity.

Commercial real estate is emerging as an industry to watch closely when we look at the comments provided by examiners. In October, I talked about the supervisory recommendations that we're seeing in reports of exam. The areas reported most frequently as in need of improvement continue to be board/management oversight, portfolio sensitivity analysis, meaning less robust than it should be, and portfolio management areas. Those are the areas most in need of improvement. Credit underwriting, of course, is always on our radar. But, we are not seeing that garner many supervisory recommendations.

I want to talk a little bit about LIBOR transition readiness. I don't think I heard that mentioned much. But I'm mentioning it because I know the states have partnered with us here to gather some data, and we sure appreciate that.

The impact of the LIBOR transition is not equal across all banks. The largest, most internationally active, institutions have by far the greatest exposure to LIBOR, as we know. And, some of the regional banks have some very material exposure. But, most of the community banks that we've measured so far have far less exposure to LIBOR, with many of the community banks reporting no exposure or only minimal exposure.

Overall, we're finding that most U.S. banks have completed an assessment to understand how the LIBOR transition will affect them. And those with significant exposure have a process or timeline to manage the transition. Many banks have made notable progress in the review for fallback language in their financial contracts.

Institutions do have more work to do towards selecting alternative reference rates for all their products, determining how the transition away from LIBOR will financially impact their institutions, and developing effective communication strategies.

And just to end on a high note, since Bret mentioned this too, we're seeing that the increase farm income has translated to an increase in farm loan repayment rates. And we've seen the past-due rates fall at ag banks, and that's one of the only loan categories that really saw a decrease in past dues this past quarter. With that, I'll wrap it up.

MS. KEA: I think we do have time for some questions if any of the members have questions that you would like to pose to Shayna or Camille. We'll take a few moments. I know that we are a little over time, but we have a strategy for getting back on time.

You can use the raise your hand function, or you can just turn on your camera and unmute and jump right in, if you have questions or comments. I'll give it a minute since I've noticed there is a delay.

(No audible response.)

MS. KEA: Okay. I think then this has been very interesting and very informative. And, let me thank you all for that great interactive discussion on state and national conditions. Very, very interesting.

What we will do now is take a break. I would like to shave some time off of the break time, and if we could just consider this a brief comfort break. If you could be back at about five minutes after 3:00.

And when we come back, I'll be introducing to you our new Chief Innovation Officer, and you don't want to miss that. So if you would be back just at about five minutes after 3:00 and take a very brief comfort break now. Thank you.

(Whereupon, the above-entitled matter went off the record at 2:54 p.m. and resumed at 3:05 p.m.)

MS. KEA: Well, hello, everyone, and welcome back. Well, the meeting has gotten off to a great start. Today, we're very, very fortunate to have FDIC's most recently appointed Chief Innovation Officer, Sultan Meghji, with us.

Sultan is a recognized expert in financial technology. He just completed his first month with us here at the FDIC. And, I'm pleased to present him, as he will tell us a little bit about his vision for FinTech at the FDIC. Sultan, the floor is now yours.

MR. MEGHJI: Well, thank you so much. And allow me to say for my first time being a part of this event, it's great. And, it's been fantastic to hear all the different voices from across the country.

As a Midwestern son and someone who got into banking right in the State of Missouri, it's great to see all of the different states represented here. I loved hearing everything you guys were talking about. And, you'll hear some of the same things as I talk through what we're planning here at the FDIC.

I'll start by just saying I'm on day 32, and as the Chairman was reminding me this morning that it was my 32nd day, I am sadly not going to announce any massive new policies or anything like that. But, I do have some good stuff that hopefully will resonate with all of you.

First, I wanted to talk a little bit about the themes of innovation that we're looking at here. And, they're some of the same things that you guys have already talked about today. So first, we're going to talk about inclusion.

We, as an industry, could really do a lot more there. We're spending a lot of time looking at ways where we can look at inclusion. And, I don't just mean in terms of operating processes or in the institutions, but also looking at things like the last mile in terms of how we help community banks across this country get that last mile, get the new customers, get the -- expand their existing customer base, look at new and different products and services that they could bring to market that allow them to really offer a broader set in this very competitive and very dynamic market.

The second, and I'm so happy to hear so many conversations about cybersecurity, but we're going to talk about resilience. And, it isn't just the normal cybersecurity things, creating defensive technologies I heard earlier which was fantastic to hear, but also looking at existing technologies that are in place that we need to encourage and innovate around in order to make them more secure and talking about things like multi-factor authentication, which allows for better user security. Making sure that all the data and information that all of these institutions have is encrypted, not just as it's sitting inside of the institution, but also as it moves back and forth across this ecosystem.

Also, we want to talk about engineering for resilience. What that means is that we need to engineer the next generation of technology. It's not just in terms of what we do at FDIC but also what others do in terms of the institutions all the way down to the consumer and the small businesses that make up Main Street. Make sure that they are engineered for resilience.

As we look back at the 20th century, so much of the economic power of this country was based on Main Street. That American competitiveness has been a core component of our nation's success. And as I look to what we should be doing next for the 21st century, I want to continue that. I want us to look at the 21st century as an even better place. And because of that, we need to make sure that we're the most resilient system out there.

Third is amplification. This is a challenge we have where so many organizations, especially the smaller ones that I do worry about becoming these digital have-nots versus the digital haves of the larger institutions. I do worry that there's a lot of analog to digital transformation that's going on; and I worry we're going to lose people. I worry we're going to lose that ability for people to operate efficiently, for great bankers to be working with their communities and figuring out how to get that job done.

And so we're going to spend a lot of time looking at ways to streamline everything from basic examination processes, and you heard the Chairman talk about the call reports, all the way through to larger systems in terms of how we operate at the FDIC. There's a tremendous amount that we can do there. And we've spent decades building many layers of technology and different cultures and different processes together.

And on the back end of that, we need to take a step back and look at the ways that we can make this overall system work more efficiently; and that the people are spending more time being the experts that they are and less time manhandling a spreadsheet or dealing with some sort of technical support issue. I did notice that we had one person who had a VPN issue. And, I think it makes the point exactly.

There are a lot of different ways you can design a secure network. VPN is one way to do it. You can also do something like zero-trust networks, which probably would've alleviated the bandwidth constraint that he dealt with earlier.

And then finally is protecting the future. There are a lot of things that have been hitting my desk, everything from concerns about global competitiveness, to what quantum computing will mean, to the impact of recent hacking incidents, to the FinTech ecosystem, to digital assets and cryptocurrencies. And the banking system of today in a lot of ways looks quite a bit different than the banking system from 20 or 30 years ago.

There are some things that are exactly the same, but other ways that are quite different. And that evolution, that change is not a once in a generation kind of thing. It's an ongoing set of changes.

And we need to be thinking five and ten years into the future. What does that look like? What does the banking system of 2031 actually look like? How many banks? What are the kinds of products and services? What are the ways that we as a nation are being globally competitive and economically dominant like we have been? And how does our banking system support that and support the Main Street so that this is an equitable, inclusive, and diverse set of banking products and services it offers everyone in the market?

So amongst those four themes, that's great. That's a vision. That's me 32 days in, kind of sort of setting the table, if you will. On the back end of that, what are we actually going to do? What are we going to make executable?

And this is something that the Chairman has pushed me on to make actionable things happen very quickly. And so you're going to see a couple of things happen very quickly here. But, I can't talk about what we're doing next. But I'll talk about some of the things we've already done.

So first, let me talk about we put out an RFP around standards, and this is a critical thing. I've been in tech for almost 30 years. I go all the way back to the first web browser to age myself just a little bit.

And one of the ways that we made the web so dominant in the 1990s was by focusing on standards. And standards are critically important because it's not endorsing a vendor or endorsing a piece of technology.

It's endorsing a way of talking to each other. It's a way of endorsing how two organizations can talk to each other, and that's great. And then the market will do what the market does, and we build amazing technology around that.

And so we put out this RFI to propose a public-private standard setting organization. And this has turned into an amazing internal conversation for us. It's a voluntary program by which banks can -- if they choose to rely on this, could ease their due diligence, ease their party-vendor risk management.

And it would help alleviate a lot of the costs for newer entrants and non-regulated entities, so that they wouldn't have to do everything one-off, a one-off attempt to work through one vendor due diligence and then go off and do it a second time and go off and do it another time. That's a huge waste in terms of cost, in terms of time, and it also increases risk. And, to my previous point about resilience, it causes some issue with resilience.

We've gotten some wonderful constructive thoughts and feedbacks on that. And we're continuing to do a lot of great work on that. And, you'll hear more about that in the future.

It's also important to note that we have been partnering with NIST, the National Institute of Standards and Technology, which is great at this. And if you look at the underlying standards to make the internet work, NIST has been in there from the beginning, so it's a great place for us to work.

We’ve also have been working with the other federal regulatory bodies like the OCC and the Federal Reserve. And we're really thinking about this in a rather out of the box solution. But, we want to be very thoughtful about this when we build this new way of thinking about things. And we're going to be looking to engage with everyone, including all the stakeholders listening to my voice right now, to ensure that we really build something that's massively valuable for everyone and really moves the needle on this.

Just an aside, you'll hear me say the phrase, move the needle. And this is something that I actually stole from the Banking Commissioner of the State of Missouri at the time. It's a guy named Lee Keith. He's a good friend of mine, and I just love that expression. I think it fits perfectly with what we're trying to accomplish here.

Second thing I want to talk about that we've been doing already is our rapid-phase prototyping project. This is a really cool way for us to reach out to the market and say, “hey, what are your ideas for how we can do things better?” And, it was fantastic.

In the initial submissions, we got over 30 of them from a variety of institutions, large and small, making up every aspect of American business, came to us with all sorts of amazing ideas. And we worked through a really great process, and we've been working them through this multi-phased approach. Right now, we're in phase three, a very cost effective program for us, which is great.

And we've gotten to about 11. I think it's officially still organizations that are working through this rapid-phase prototyping project. And at the end of it, we're going to have 11 fundamentally useful pieces of technology.

To give you an example of how this isn't exactly the old way of doing things. The first request for people to participate was in August of last year. And now it's roughly just slightly more than six months later and we're just a few weeks away from getting some of these file reports. It's a huge win for us and an absolutely fantastic thing. I should, of course, disclose that one entrant I'm not allowed to talk to because I have a previous association with them.

Okay. So now let's talk about the future. You're going to hear us talk about a couple of different ways of doing things. But first, I wanted to talk about what we call tech sprints.

These are ways -- these are programs by which we take a basic problem and we open it to the market and say, here, come to us with your ideas and your thoughts. Sometimes we'll go to banks. Sometimes we'll just go to the market, maybe tech companies. In some cases, it could be none of those.

And the idea is to say, listen, we have a problem and we want to get the best and brightest and the most interesting thinkers involved. And in a lot of cases, that turns into something called a tech sprint. That's usually kind of a three-month program where we position a question. The market comes in and says, here's our proposal for it. We work through them over a certain amount of time, and then we get a result. And, that result is fantastic.

And every time we do one of these, you'll get a nice big announcement on the back end where we talk about what we're doing because the transparency in this space is really useful, especially as we look to incentivize organizations across the ecosystem to participate more fully in this process.

In parallel with tech sprints, when it isn't so well defined of an issue, we do these kind of research collaborations. And, we're working with a number of different universities from some of the big names you would expect to historically Black colleges and universities, to help us think about things from an almost a primary research perspective. It's sometimes, some of these things are happening so quickly and so fast and the market is evolving that we just need to get some really thoughtful people on the research side to help us.

Another thing we're talking about is related to highlighting programs. Back a long time ago, when government contracting was the biggest boondoggle of boondoggles, you would have these big five-year, 100 million dollar projects. And, that's great. That's back when people would buy mainframes and you would never get fired for hiring one of those companies, the old expression.

That's now how technology is acquired anymore. Technology is acquired as a service. It's acquired as a value you get out of it, and it's not one big contract. It's lots of smaller to mid-size contracts.

The era of the one MSA to rule them all kind of environment is ending very quickly, the seven-year contracts and all that kind of stuff. This is much more about continual value creation. So, that's how we're moving, how we think about the world, and how we want the rest of the world to look at that as well.

And so we're going to continue to do more and more things that allows us to just slowly walk through and chip away at what we call technical debt in the environment. When you go down the programs across the four themes I talked about, you'll be getting an entirely different cadence of activity from us. You'll be hearing about things weekly, not annually. You'll be hearing us solve very specific tactical pain points.

You'll hear more about it, probably to the point you'll be annoyed hearing from me. But, I'll just say that one of the things that makes an effective innovation program in an organization like this is for the people who sit in chairs like mine with teams like mine to be listening to everybody out there and to hear that often. One of the very first things I did was create an email for people to just suggest anything and reach out. It's called innovation@fdic.gov, and it's a great way for just anybody to reach in to us and say something or suggest something. We really need to get better at that and need to get that iteration moving much more quickly.

So with that, I will just stop for a second and say that while we have a lot of other things going -- I have a lot of hiring to do. I'm only on day 32. I'm sorry I don't have more to report. I am happy to take a few questions if there are any questions. I'm saying this now so if people want to raise their hands, we can get to that before I finish speaking without disrupting the clock, which I'm paying very close attention to.

I'll highlight two specific areas that you're going to hear us speak a lot about more tangibly, and the first is around data. We have a tremendous amount of data in this market and some of it we use very well and very effectively; and other parts of it we don't use very well and very effectively. And as we change the nature of the financial products and services being offered in this market, we're going to need different information. We're going to need different things.

Having loans that have the geographic information of where that asset is, is a critical component. That's something that we really need to be able to understand things. And as we move to environments where we're trying to remove friction, the more data we have and the earlier we have it is more important.

We also are looking at things like how to consider, for example, agricultural data in some of our examination discussions, where to look at climate data, where to look at health care data. We have these integrated economies now, and it's hard to just have a little slice of the data and try to understand the full breadth of it, especially in as dynamic an economic environment as we're currently in, whether it continues to go well or maybe doesn't, the fact is that that cadence and amount of data is going to just continue to keep growing. And, we have to get comfortable with that.

The last point I'll make before I'll look at any questions is to specifically talk about cybersecurity. As a market, I don't think we can put too much attention into this (audio interference) whether they are state sponsored or not.

Ransomware, I was excited to hear a couple of people talk about ransomware earlier in the program. Let me just say when ransomware as a service became a thing a while back, it really raised the eyebrows for me. And, I'm really hoping that as a market, we get very thoughtful about getting cybersecurity funded correctly, executed correctly, communicated correctly across this entire community of institutions, regulatory banking and individual.

The fact is we're playing a lot of catch up in cybersecurity, and we can't invest too much money in. As we look at making sure that our consumers are taken care of, our small businesses are taken care of, our homes are taken care of, we really have to make sure we're putting a lot of effort in.

And raising the awareness is one thing, but also educating everyone is a big piece of this. In a separate structure, there's been some policy work done that specifically looks at how we can make sure that everybody from the board of directors, to the C suite, to the consumers and the small business owners are all getting lifted up in terms of their understanding about what they should be thinking about from a cybersecurity perspective.

And, we just can't put too much energy into that.

So with that, I will see if there are any hands up. And, if not, I will just yield a minute or two early which I hope no one minds and go from there.

MS. KEA: Let's just take a moment, Sultan, because of that delay that we've seen earlier today, to see if there are any questions, hands raised. Questions or comments?

(No audible response.)

MS. KEA: If not, I think everyone knows where to find you. And I suspect that you will probably be getting some emails or calls fairly soon. So, we thank you so very much for providing those comments to the group this afternoon. Thank you.

MR. MEGHJI: Thank you.

MS. KEA: At this point, I would like to move on in the agenda. And we have John Anderlik who is our Assistant Director of National and Regional Risk Analysis in our Division of Insurance and Research. And John is going to share some research update, which focuses on the FDIC's community bank study and agricultural lending. So at this point, John, I will turn it over to you.

MR. ANDERLIK: Thanks, Arleas. It's my pleasure to be speaking to you today about two recent research projects in the Division of Insurance and Research. As Arleas said, the community banking study, which we published online in December, and the FDIC quarterly paper on agriculture, which we published earlier this week. Today, I'll cover both of these topics at a fairly high level. Let's turn to the first slide.

I'll start with the community banking study. The FDIC's first community banking study was published in 2012. That study had two primary goals: to define community banks beyond the simple asset size, such as a billion dollars, and to compare the characteristics and performance of community banks with those of non-community banks.

That paper had a long study period, from 1984 through year-end 2011. This study builds on several of the themes from the original study, bringing them forward through year-end 2019. It also includes two issues that were not covered in the original study: regulatory change and technology and their effects on community banks.

I'm going to take a quick walk through each of the study's six chapters today. One thing before we get to Chapter 1, though the study goes through year-end 2019, we felt it would be remiss if we didn't mention 2020's pandemic. So, each chapter includes an inset box that discusses the pandemic and its community bank effects on the issues studied. Next slide.

Chapter 1 covers the financial performance of community banks from 2012 through 2019. Overall, community banks have performed pretty well. We begin the chapter by showing that community banks have reported steadily increasing pre-tax ROAs since the conclusion of the prior study, reaching 1.44 percent in 2019, up from 1.05 percent in 2012.

However, similar to the conclusion that was reached in the original study, non-community banks continue to report higher earnings overall than community banks, primarily because non-community banks have a large advantage in generating non-interest income. But, the gap in pre-tax ROAs narrowed to just 22 basis points by year-end 2019, down from 43 basis points in 2012. Community banks do have two advantages of financial performance over non-community banks.

First is higher net interest margins. As you can see from the chart, community banks have had a NIM advantage over non-community banks since 2010. And second, is in credit quality as measured by credit losses. The full year charge-off rate reported by community banks reached a post-crisis low of 0.13 percent in 2019, which was 45 basis points below the rate reported by non-community banks. Next slide.

Chapter 2 focuses on the structure of community banks. Consolidation continued between 2012 and 2019, with non-community banks consolidating at a faster rate than community banks. Over the recent time frame, consolidation was led by voluntary mergers between unaffiliated institutions.

Two differences stand out in the examination of consolidation trends in this study versus that of the prior study. First, from 2012 to 2019, the number of new banks formed each year declined to post-1984 historic lows. Second, with newer and fewer institutions to replace those that were acquired or closed, the rate of net consolidation increased from 3.2 percent annually, from 1984 through 2011, to 4.3 percent, between 2012 and 2019.

The chart shows that over two-thirds of the community banks that closed between 2012 and 2019, whether because of merger, failure, or other voluntary closing, did so because they were acquired by another community bank.

The smallest community banks, those with under $100 million in assets, were highly likely to stop operating because they were acquired by another community bank. But even among community banks with one to ten billion dollars in assets, nearly one out of every five that ceased operations did so because they were acquired by another community bank. Let's go to the next slide.

Chapter 3 examines demographic change. This is an important issue to assess because as demographics change, community banks see changes in their client bases and loan demand. The two major demographic factors considered in this study are median age and net migration flows. For each of these metrics, we looked at counties in the highest and lowest quartiles for each metric.

The map shows those counties that were in either the highest or lowest quartiles for both measures. Dark blue counties had the youngest median ages and the highest net population inflows. These counties tend to be located in metro areas.

Our study found that community banks headquartered in such counties, experienced faster asset loan growth rates, were more profitable, and had larger shares of business loans than other community banks. At the other end of the spectrum, the dark gold counties were in the oldest quartile and had the lowest net inflows, actually net outflows of about 0.4 percent per year. These counties tend to be rural.

Community banks headquartered in these areas grow more slowly and have lower commercial lending portfolios. They also have higher deposit to asset ratios. The chapter also has a large inset box on rural depopulation, which is a key topic for the dark gold counties. The FDIC has published two papers on that topic since 2004. Next slide.

Chapter 4 discusses three notable lending strengths of community banks. At year-end 2019, community banks in aggregate held small shares of the banking industry's assets and loans, just 12 percent of total industry assets and 15 percent of total industry loans. Yet community banks are key providers of CRE loans, small business loans, and agricultural loans.

The next three slides cover these areas. We'll start with CRE. Community banks hold 30 percent of banking industry CRE loans. The chart shows how community bank CRE lending overall is outsized compared to their assets.

CRE lending is widely distributed among

community banks, with almost all of them holding at least some amount of CRE loans, and many holding substantial portfolios. Community banks are active lenders to a wide range of industries, including industrial, retail, and hotels. And, community bank multi-family lending grew in the years between 2011 and 2019.

In addition to lending across industry types, community banks have been active CRE lenders across all sizes of markets. In 2019, community banks headquartered in rural areas -- I'm sorry, in rural and small metro areas held more than two-thirds of CRE loans held by all banks headquartered in those smaller geographic areas. In larger metro areas, community banks' share of loans were smaller, but still quite material.

One final note on this topic, the share of community banks that the FDIC considers CRE specialists increased over the study period. These CRE specialists are particularly important providers of CRE loans in small communities. Let's go to the next slide.

The second area of lending strength for community banks is small business lending. At year-end 2019, community banks held 36 percent of the banking industry's small business loans. During the period covered by the study, community banks' share of small business loans declined per call report data.

You can see in the chart that non-community banks grew their business loans across loan sizes while community banks business lending remained flat across the lending spectrum. But, call reports don't tell the whole story. Call reports are based on the size of the loan, not the size of the borrower.

In response to the 2018 FDIC small business lending survey, many bankers said their C&I loans were extended predominately to small businesses regardless of the size of the loans. This supports the widely held belief that at community banks’ many C&I loans above a million dollars are, in fact, loans to small businesses.

Another data source that supports that community banks continue to be active lenders to small businesses is the SBA. The SBA's 7(a) program guarantees loans originated up to five million dollars. Community banks' share of loan originations increased with 38 percent of total originations in 2012, to 46 percent in 2019. And many of those loans were above the one million dollar call report thresholds. Next slide, please.

The third area of lending strength for community banks is agricultural lending. Community banks play a key role in financing the U.S. agricultural sector, funding roughly 31 percent of total U.S. farm sector debt in 2019. About half of community bank agricultural lending is held by community bank agricultural specialists, and we focus on these institutions in the chapter. These banks tend to be small and rural, with median asset sizes of just 128 million dollars. Seventy-five percent have total assets of less than 250 million.

An important point we make in this chapter is that community bank agricultural specialists have shown a strong commitment to such lending over the years. The chart shows that most agricultural specialists have a long history in that role. Of the institutions that were in operation from January 1990 through year-end 2019, over 55 percent of them were classified as an agricultural specialist in at least 28 of the 30 years.

In addition, agricultural specialists have been committed to lending to farmers through cycles in the agricultural sector. From first quarter 2000 through fourth quarter 2019, in only two quarters did community bank agricultural specialists as a group see an annual decline in aggregate agricultural production loans. And, they never reported a decline in aggregate farmland secure loans over that 20-year period. Next slide.

We'll now turn to Chapter 5 on regulatory change. The chapter describes the regulatory changes from the onset of the financial crisis in 2008 through 2019, that were relevant to community banks and the effects the changes may have had on those banks. As shown in Chapter 1, community banks in aggregate have been performing well, but it is often said that regulatory compliance may be relatively more expensive for smaller institutions.

In that respect, three issues stand out. First, running a small residential loan function appears to be becoming less economical over time. The chart shows that the percentage of small mortgage lenders with sustained reductions in balance sheet mortgages has been increasing, especially since the crisis.

The chapter examines this issue under three different definitions of a small mortgage lender. The two other trends, the record pace at which community banks have been edging the industry since 2014, and what appears to be the increasing target asset size of new small banks based on their initial equity, are consistent with the presence of scale economies. In principle, the need for a compliance function is a potential source of scale economies.

Now the study makes it clear that policy benefits of regulations and how well they are achieved are beyond the scope of the analysis, so nothing in the chapter should be viewed as a criticism of the regulations. The bottom line of the chapter is support for the idea of achieving regulatory goals while accommodating as appropriate the business models of community banks. Next slide.

The last chapter in the study is on community banks' use of technology. Community banks have adopted different technologies, including newer technologies such as mobile banking, automated loan underwriting, and online loan applications, at different rates. According to research and community banks' own descriptions of the opportunities and challenges, factors such as banks' characteristics, the economic and competitive environment, and the attitudes and expectations of bank leadership all play an important role in community banks' adoption of new technologies.

The chapter examines how technology haves, or those with a high adoption of technology, differed from have-nots, or those with low adoption. The purpose was to shed light on potential motivators, barriers, and outcomes associated with technology adoption. The study uses the results from the 2019 CSBS annual community bank survey.

Survey responses suggest that cost is a significant challenge to technology adoption. In fact, almost half of community banks use the word cost at least once when describing their challenges. As the chart shows, larger community banks are more likely to have adopted technology than smaller banks.

Just 6 percent of community banks with less than 100 million dollars in assets, are considered high adopters of technology in the study, while 70 percent of community banks with assets over a billion dollars were high adopters. In addition, relative to low adopting banks, high adopting banks had a higher loan to assets ratio, had faster loan and deposit growth, faced greater competition within their local markets, and had more positive outlooks on profitability, business conditions, and regulatory burdens. Next slide, please.

Let's turn to the FDIC Quarterly article on agriculture. As I said, it was published earlier this week. In the paper, we take an extended look at the U.S. agricultural sector and the condition of farm banks. In the first half of the paper, we examine the unusually long boom in farm incomes from 2004 through 2013, the period following the boom from 2014 through 2019, and then the turbulent 2020 that ended up as a positive for the sector.

In this analysis, we focus on 12 states in the Upper Midwest where everything was magnified. The farm income boom was more substantial in these states as was the downturn that followed the boom. In the second half of the paper, we examine how the changes in the agricultural sector affected farm bank conditions, how banks responded, especially during the boom years, and challenges that persist. Next slide, please.

We'll start with the chart that shows inflation-adjusted U.S. net farm income going all the way back to 1960. The chart shows the two income boom periods from 1972 through 1975, and then from 2004 through 2013. The recent boom didn't reach the peak of 1973's income level, but it was far longer.

During that ten-year period, U.S. net farm income averaged 102 billion dollars per year, well above the 77 billion annual dollar average from 1987 through 2003. During this period, the sector saw substantial price increases across many important agricultural commodities, including corn, soybeans, wheat, cattle, dairy, and hogs.

Production expenses for things such as fertilizer and seed increased during this time, and farmland became more expensive to rent. But, commodity prices rose much more than expenses, leading to the higher net farm incomes.

The long period of prosperity ended in 2014 as strong returns incentivized heavy growing in the U.S. and around the globe, pressuring commodity prices. By 2016, average annual prices farmers received for corn and wheat were down nearly 50 percent from their peaks. And prices for hogs, milk, and soybeans were down by a third. Production expenses declined during this period, but slowly.

The result was a large drop in farm incomes from those achieved during the boom. By 2019, the sector had stabilized, though at a somewhat weak level. Then 2020 was roiled by the pandemic, which caused significant disruptions to food demand and supply chains.

Commodity prices, especially for corn, plummeted in April and May. But, record governmental support combined with late in the year recoveries and exports at commodity prices, helped the sector achieve overall strong incomes in 2020. And we heard this from some of the state bank Commissioners earlier. Next slide, please.

Let's turn now to farmland values. Farmland values represent the largest portion of most farmers' assets and net worth. You see in the chart the dramatic rise in farmland prices in the 1970s that proceeded the agricultural crisis of the 1980s. Farmland prices dropped precipitously during the crisis, and did not begin to grow again until the mid-1990s.

During the farm income boom that began in 2004, farmland prices grew to record levels. In contrast to the farmland prices of the 1970s, farmland prices did not fall when incomes fell beginning in 2014. The combination of low interest rates, tight supplies, and steady demand for farmland has kept overall farmland values relatively flat since the farm income boom ended.

There was another big difference in the farmland price boom of the 1970s and the recent boom. In the 1970s, the price gains were widespread. Farmland values in 20 states at least doubled and another 22 states saw prices go up at least 50 percent. But in the recent boom, farmland price increases were more isolated.

Though farmland prices rose 81 percent overall between 2005 and 2015, less than half of all states experienced a run up of more than 50 percent. This time, only eight states saw farmland prices more than double during the boom; and all eight of these states are what we call the Upper Midwest in our paper. I'll get into the Upper Midwest more in the next slide, but it's the combination of three USDA economic regions: the Corn Belt, Lake States, and the Northern Plains. Next slide, please.

In this chart, we focus on the Upper Midwest to contrast it with the farm income performance of the other USDA economic regions. This chart shows net farm incomes indexed so that the 1987 to 2003 average is 100. The dark blue line represents the Upper Midwest. The dotted blue line is the aggregate of all other USDA economic regions, and the shaded area marks the range of the other regions.

In the early 2000s when overall U.S. agricultural conditions were weak, Upper Midwest states had among the lowest net incomes of the USDA regions. But then during the farm income boom, incomes in the Upper Midwest quickly rose and outperformed all other regions during that period. When the farm income boom ended, incomes in the Upper Midwest swung again, this time downward to among the lowest among the USDA regions.

As the slide shows, incomes in the Upper Midwest peaked in 2011 and 2013, in which aggregate income was nearly two and a half times its long-term pre-boom average. Incomes in the Upper Midwest then fell down more than two-thirds to reach their bottom in 2016. The swings in income in the Upper Midwest track the swings in prices of major agricultural commodities during that time.

Corn and soybeans generate the largest share of cash receipts in these 12 states, and hog and cattle production was also important. Prices for all these commodities increased significantly during the farm income boom and then fell sharply when it ended. Next slide, please.

In the paper, we then turn to the condition of farm banks through the farm income boom and subsequent downturn. The FDIC has long defined farm banks as banks with 25 percent or more of total loans concentrated in agriculture. As of year-end 2020, there were 1,163 farm banks in the country, representing about a quarter of all commercial banks.

The map shows where the nation's farm banks are located and also that the majority, more than 78 percent, are headquartered in the Upper Midwest. It's not surprising that farm banks performed very well during the farm income boom. You may have noticed that the dates of the boom ran over the Great Recession.

Since the U.S. agricultural sector was so strong during that time, most farm banks continued to report strong earnings and capital levels, and low levels of past-due loans. An area the farm banks found challenging during the boom was loan growth. Since the sector was so flushed with cash, farmers began to pay down debt or even self-finance their operations rather than taking out bank loans. Banks also had to deal with rising deposit balances during this time. Next slide, please.

One point we've highlighted in the paper was how different the behavior of farm bankers was during the recent farm income boom compared to the 1970s boom. In the 1970s, farm bankers responded to surging farmland prices by dramatically increasing lending to fund expanding farms. You can see that in the left panel.

Farm banks increased agricultural loan concentrations in tandem with increases in farmland values throughout most of the 1970s. It wasn't until 1979, after several years of lower farm incomes and on the cusp of the agricultural crisis, that banks reined in their agricultural lending. Contrast that to the more recent period shown in the right panel.

The median farm bank agricultural loan concentration ratio, which was already lower than before the boom of 1970s, remained low even as farmland values soared. This was true even in the Upper Midwest where farmland values rose higher and peaked later. Part of this more muted lending reaction to the farm income boom and rising farmland values was because many farmers were self-financing as I mentioned earlier.

But, farm bankers were also more cautious, not wanting to repeat the mistakes made a few decades earlier. This sentiment has been a common theme from farm banks at outreach meetings conducted by the FDIC over the past 15 years. Next slide, please.

My final slide of the afternoon has to do with credit conditions of farm banks. The left slide shows the past-due and nonaccrual ratios for farm banks in the Upper Midwest and the rest of the country. The solid lines are the 90th percentiles for both sets of banks and the dotted lines are the medians.

The right chart is similar, but shows the net charge off rate. You can see from the charts that credit conditions improved substantially during the two decades following the agricultural crisis. Then the farm income boom drove delinquencies and charge off measures to historic lows.

Though median delinquencies and charge offs have edged higher since 2014, they generally remain at or below a level seen immediately before the boom. Where we have seen increases is in the tale of agricultural banks. The first quarter 2020 90th percentile delinquency rate in the Upper Midwest was the highest first quarter rate we've seen since 2003.

FDIC examiners also note increasing levels of carryover debt of farm banks in recent years. Overall, though, farm bank credit quality has been resilient since the farm income boom ended. I'll conclude my agricultural remarks with this. Even though the second half of the 2020 and the USDA's 2021 outlook are reasons to be optimistic about the sector, we do still see some challenges for borrowers.

For one, overall debt levels are very high, but debt service so far has been moderated by low interest rates. In addition, a subset of borrowers, what the USDA refer to as highly leveraged borrowers, remains at risk. And it's too early to tell if a strong 2020 will be enough to bring those farmers back to a solid financial position.

And with that, it looks like we are back on track. If you have questions, I certainly welcome questions. Please email me. My name is on the agenda. My email is just my first initial J, my last name @fdic.gov. I look forward to chatting with some of you. Thanks.

MS. KEA: John, thank you so very much and thank you for having provided your report to all of our members. I suspect that they will want to look in at it a little closer and then they will be emailing you to ask questions about that.

MR. ANDERLIK: Sounds good.

MS. KEA: So thank you, again. Next we have Doreen Eberley, our Director of the Division of Risk Management, and Mark Pearce, Director of the Division of Depositor and Consumer Protection. They are going to lead a discussion with the Committee on state and federal coordination. Doreen and Mark are joined by John Vogel, Deputy Director of Operations, Rae-Ann Miller, Senior Deputy Director of Supervisory Examinations, and then Martin Henning, Deputy Director of Operational Risk. At this point, I'd like to turn it over to Doreen and Mark and their team.

MS. EBERLEY: Thanks, Arleas, and good

afternoon, everybody. It's been a pleasure to be a part of this today and to hear all the remarks this morning. Really enjoyed it. I'm going to kick things off, and Mark will close us out.

The first thing I really wanted to do today was recognize our partnership in the Alternating Examination Program. Many of you talked this morning about challenges, but that everybody met their examination obligations during the year on both sides of the house. So, all of the states and the FDIC each met our obligations under the alternating program, really in spite of the challenges of the pandemic and some pauses that we offered bankers at the beginning of the pandemic that we talked about last time to give them some time to adjust and make whatever arrangements they needed to make with their own staff to keep their staff safe and to accommodate their customers.

We've heard mostly positive comments from the industry regarding the move to remote examinations. Some of you mentioned that there are some institutions that are very eager for us to come back on site. We've had a few challenges with banks that don't image loan files. And, we've taken some steps to mitigate this issue such as loaning scanners to those institutions to help them prepare the information to send in to us.

So we're interested in having some time today to talk about what's worked well, what else could be improved, and any best practices that we have to share. For example, in training new examiners who haven't been to a bank, and that was mentioned in the morning session as well. I really do appreciate the comments shared thus far, and I hope that we can have some additional dialogue on this topic. John Vogel will give a little bit of a background about our remote training efforts; and what's happened since the last time that we met.

We also wanted to spend some time talking about some other opportunities to partner in modernizing our examination tools and processes. Rae-Ann will make some introductory comments for that topic. And then finally, another way that we partner is in our supervision of service providers that aren't covered in our Alternating Examination Program for financial institutions, but in a separate program, and also in sharing information when things go wrong at an entity we supervise.

And many of you mentioned this as an area of importance in your earlier remarks as well, an area of focus. So Martin will talk about some advancements on both of these fronts. So, we'll run through those comments and then we'll turn the program over to Mark and have some conversation. John, can I turn it over to you to talk a little bit about some of our advancements on the training front, please?

MR. VOGEL: Thanks, Doreen. I appreciate it. So since October, we have had some developments in our training area. I wanted to mention a little bit of what I talked about last October and just highlight our ability to convert the core schools.

So, we converted 12 classes that are integral to our training and development for both the Division of Depositor and Consumer Protection and for RMS. So we undertook that effort soon after the pandemic began. And, we successfully made the conversion, and we were able to deliver 65 remote sessions to over 900 folks at the FDIC and 260 individuals from the state. That was from July through December. For 2021, we have another 53 remote sessions planned for 780 FDIC staff and another 241 state participants.

So far, it is going well. I will tell you that recently the FDIC decided that we won't have any in-person classroom delivery for the remainder of 2021. So we'll continue with our remote delivery efforts for, of course, both FDIC and state participants.

Similarly, the FFIEC undertook a vote at its Task Force on Examiner Education earlier this week to also suspend any in-person classroom delivery for 2021. And, the FFIEC staff is working to continue its remote course delivery. And they're also working to convert additional programs. I will say that at the FDIC, the converting of the programs does allow a wider audience to attend the classes. So, we have seen some benefit from that.

When we talked about our training program at both the FDIC and I believe it's true at the state, it's largely an apprenticeship program. So, the benefits of working with an individual experienced in the exam work is critical to our training success. And I will tell you that the regions have been extremely creative in making sure that our pre-commissioned examiners get the training they need to meet their benchmarks.

We've done things like shadow exams where two discrete groups look at the same set of data. One is doing the actual exam, one is doing what we're calling a shadow exam. We've been able to partner and provide coaches and assign coaches to our pre-commissioned examiners. We've also been able to assign more individuals on the exam for training purposes than we would traditionally be able to at institutions, making sure that we're not putting an undue burden on the financial institution.

I do encourage you to reach out to your local FDIC office to talk about best practices for training. They've been doing a great job, and I'm sure they're more than happy, if they haven't done so already, to talk with you about it. Doreen, should I turn it back to you or over to Rae-Ann?

MS. EBERLEY: Yeah, we'll go ahead and move over to Rae-Ann.

MS. MILLER: Thanks very much, Doreen, and thanks all. I really enjoyed your remarks this morning. Great to see your faces.

So Doreen asked me to talk very briefly about some of our examination processes. And we really did take a holistic look at our examination processes coming out of EGPRA, believe it or not, which feels like it's so long ago. But, we're constantly looking at processes and looking at ways to improve our supervisory activities.

And so, we started with reviewing our examination planning processes and standardizing those processes across the region. And I am not the IT person. That person works for John. But, it does involve a lot of technological solutions and improvements.

And so a few of the things that we did was first change the policy, I'd say, on the paper. And so we had a very brief instruction about letting the institution know at least two weeks before the examination that you would be starting. And so, we backed that time frame up to 90 days and created a process and cadence of communications with the institution as well as a way to describe and discuss the profile of that institution with the institution; and added these instructions to our manual, and so kind of a standardization of the planning process nationally and backing that up.

Following that, we were tackling an issue about inconsistency with work programs, with documentation. There were a series of regional and sometimes even local checklists about exams. And so we had been planning prior to the pandemic to work on standardizing those processes and then moved to adopting the standardization of the ED module core analysis decision factors to standardize those processes.

So now, across the country, the documentation standard that a full scope examination has been completed is whether you can complete -- and to the extent that you can complete the core analysis decision factors that relate to what we call the primary ED modules. And as you know, the primary modules relate to the CAMELS factors.

So we view this -- and again, sort of I'm the policy person, right. So, we view this policy and this standardization as really a step towards moving to a business process driven way to conduct -- plan the exam, conduct the exam, and finish the report of examination. We kind of call it the end-to-end process versus moving in and out of Word and ETS and the different systems that we currently use.

And so we're happy to be working with the states on this and with the fed. We plan to use the Supervision Processes Committee, the SPC, to talk through all these issues. We internally have moved -- especially during this pandemic -- to a tool, a collaboration tool that was already available to us to try and do our work a little bit better.

So we look at that and really all of these policy steps as sort of incremental tools to the one day that we could kind of get to this, and hopefully not in a too distant future, we can get to this end-to-end system, which will be much more efficient. And I think it was Sultan that talked about examining the bank versus worrying about entries onto a system. And, that's what we want our examiners to do.

And then on the back end, when you have standardization, it's much easier to use some of these tools that can look at unstructured data and other things to sort of search on a national basis for trends and other issues like that. So I'll stop there, Doreen, and I guess we turn it back to you at this point.

MS. EBERLEY: Yep, and so then we can move to Martin to talk about our other area of coordination with significant -- excuse me, significant service provider supervision. Lots of S's all in a row there. And also how we coordinate when something happens, when there's an incident at an institution. Martin?

MR. HENNING: Thanks, Doreen. As Doreen said, my name is Martin Henning, and I'm responsible for the Operational Risk Supervision Program. I heard comments from at least Commissioners Gallagher, Cooper, and Grace regarding IT and more specifically cybersecurity risk. The FDIC continues to devote significant resources to IT and cybersecurity supervisory activities; and are continuously improving the techniques we use to understand risks and resilience levels. And, Sultan addressed our supervisory strategies.

There's a history of the FDIC and other federal regulators collaborating with states in our examinations event services. I looked up before the meeting to ensure that's continued recently and it has. I saw, for example, that Wisconsin, California, and Missouri have participated in 2019 and 2020 examinations of service providers.

And we recently refined our collaboration process. And I'm encouraged to see just recently the states of New York and Texas, Wisconsin, North Dakota, Idaho, and Indiana either continuing to express an interest in participating or expressing a new desire to collaborate. So, we appreciate that. There's certainly, as has already been mentioned, a lot of work to do there.

I want to say a special thanks to Director Tom Fite who has been working closely with the FDIC and the other federal regulators over the last year to refine our exam collaboration processes. We've taken some really good steps forward. I'm excited to see what they produce.

As Doreen said, in addition to collaborating on examinations, it's critical for us to collaborate and communicate well when there are incidents or, this has been the case recently, material cyber threats and vulnerabilities identified. Of course, there's been the supply chain attacks discovered in December of last year and more recently the email server software vulnerabilities that have been discovered.

I want to point out that the FFIEC's Cybersecurity and Critical Infrastructure Working Group is designed to share relevant information when there are incidents. That group created protocols for communicating that are primarily based on the severity of the incident at hand. And I also want to call out and thank the states of Massachusetts and Texas who have representatives on that group. They participate in that working group routinely and help us get information into the hands of other states that have a need to know when something happens.

We've also seen improvement in cybersecurity coordination through the Financial and Banking Information Infrastructure Committee, FBIIC, led by the Department of Treasury. Some of the folks on this call participate in that as well. That's continuing to mature.

And lastly, I would say continuous improvement in this area is essential for it to function well. Most of the time, we're quick to communicate when we know something that's severe, that's significant. Sometimes we don't -- the FDIC doesn't have information where others would think that we do.

But our intention is to get better at this, while being careful to protect sensitive information that surrounds these events. So Doreen, those are the thoughts that are on my mind on those two issues. I'll turn it back to you.

MS. EBERLEY: Thanks. So we were hoping to open it up for conversation and get your thoughts on ways we can collaborate on other matters and go further in the areas that we're already working on together. Any thoughts that you wanted to share at all.

MEMBER COOPER: Doreen, Charles Cooper. Can you hear me okay?

MS. EBERLEY: I can, Charles. Hi.

MEMBER COOPER: Hey. So just a general comment, if I could. We've been working on this for a while, and I just want to thank you and Martin and William Henley specifically for working with this. We feel like the states have a lot to offer, and I know the communication process has been a little bit complicated. I think the way that you all have formalized this, working on it through these guiding principles that we've been talking about is really helpful.

And so I just would like to -- for the states, I'd just like to say we appreciate doing that. And we think this is going to improve on the communication flow. And, we will -- which we will state that I think -- like Martin stated, I think you'll find out that more states are going to be interested in joining this.

Just a side comment, though, we did support the modernization of the Bank Service Company Act, which did pass the House and it got stalled in the Senate. But, we are working on trying to revitalize that for this Congress because we believe it'll help going forward. But my main point is just to say thank you all for working with us and we will promise that we'll do the same with you all. So thank you.

MS. EBERLEY: Thank you, Charles. And I think Lise Kruse has her hand up.

MEMBER KRUSE: Yes, thank you. And, thank you again for extending the invitation for us to participate on the -- or even more participation on the service providers.

I was so excited to sign that, and we're just really excited about what we're doing so far but even moving forward. So thank you again.

I have a little bit of a -- it's not really quite a related topic. It is a little bit different. But there is an area where we do in the coordination, I would just really like to know your approach on exams when we talk about some of the FinTech areas.

And first -- there's actually really two areas. The first one would be stable coins and what your viewpoint is on that from an exam perspective because the OCC is saying that banks can have stable coins and engage in that. And as a state, I have the -- I can also allow that because it's allowed for national banks. I would like to know your approach on that when we get to exams, if you've given that any thought.

And then the other area that is becoming kind of a big deal in our state, that I didn't mention earlier, is the FinTech partnerships with banks because we currently have a really good framework for vendor management. But this really goes beyond vendors when we see the direct partnerships. And, I think it's important for our community banks to have opportunities and to compete in this marketplace.

But really what we see is that there's a compliance and safety and soundness crossover. Obviously, there's a reputation risk to the banks. But I have some concerns when our banks partner like this as far as the pass-through insurance. Are those funds insured? And I think sometimes consumers assume that the deposits in the control of the FinTech are insured. So, I'm not sure about that.

And also there's a question here about Reg E, the funds availability. Who has the responsibility? Is it with the bank or is it with the FinTech? And where does the consumer turn for help? And I don't know if that has been -- if you've given any thought to those issues and as far as coordinating between your compliance examiners and the safety and soundness examiners on how we approach this on an exam level. Thank you.

MS. EBERLEY: Yeah, I would say thanks for raising that, and we've given a lot of thought to it. I wouldn't say that we have answers for you today. We have lots of questions, and it's something that we're coordinating across the FDIC, across all the divisions, because the issues that you raised affect a number of different areas of our operation.

If consumers are confused about whether a product is insured, it's a deposit insurance issue. It could be a resolution issue; and a failure certainly is a safety and soundness issue and a consumer protection issue, just in terms of disclosures and understanding what it is. We are absolutely evaluating these sorts of issues across the board. And, I think it will be something that we'll be able to talk about in the future in greater depth.

But, absolutely, the partnerships -- we have found FinTechs partnering with financial institutions and the normal due diligence rules apply. We had a conversation earlier about the standard setting, public-private partnership as one way to help community banks evaluate a number of FinTech firms and be able to consider a broader universe because their resources are limited. They can only look at so many institutions for due diligence purposes.

Could be one way to help broaden the ability for community banks to innovate and partner. So that's an effort that we want to continue on as we're working on that. And I'm going to invite Nick Podsiadly, our general counsel, to see if he would like to raise any comments.

Brandon, Mark Pearce, any others who want to weigh in on this topic.

MR. PODSIADLY: Sure, I'm happy to weigh in, Doreen. Thank you for the question on this. As Doreen mentioned, we're doing a full sort of scope dive on all of these matters to sort of figure out where they fall. But you are correct that once the OCC has determined these activities are permissible, provided your state wildcard statute allows for it, you would be able to avail yourself of that activity.

We are also doing as part of this kind of a pipeline review to determine whether or not our 362 regs, which are what authorize the permissibility from the state level and our federal side. We're looking at whether those regs need to be updated because some activities could be of greater risk than others. I think with crypto and custody, obviously we're pretty clear on our longstanding position that we don't insure custodied assets.

But however, there are ancillary suites of products and services that come with that such as secondary lending, which may have significant risk, particularly if you have to peg evaluation to a cryptocurrency on any given day. You have -- 20 percent fluctuations can cause some significant changes to it. So, we're thinking through all of those as part of our bigger picture on crypto.

We want to make sure that we're planning for tomorrow as well as what's being allowed today, looking at digital assets as a class as opposed to a currency or a cryptocurrency. I think people are also learning about the tax consequences of exercising short-term transactions and the capital gains that are coming in this space as well. So those are things that we need to make sure we're thinking about long-term, and part of our strategy will focus on some of the risks associated with those as well as the benefits of hedging and other sort of ancillary products and services.

So, that's how we're looking at it from a legal perspective right now. I'll defer to my colleague, Mark, on any of the consumer compliance questions. I would just add with one piece on that, which is we did clarify last year our Section 27 interest rate regulations. And so, you can take a look at those.

Obviously, we are in a little bit of litigation with some states surrounding those but remain confident that the regime that has stood for 30 years in that space since Congress authorized it will be defended. And the clarity we've brought to the marketplace and to states that choose to opt out of that with regard to exportation, those remedies still exist in the statute. Thank you.

MR. PEARCE: I'll just follow up on Nick and Doreen's comments that the issues around the consumer protection, consumer awareness, especially as it relates to the deposit insurance piece is something that we had been focused on. With the increase in the number of firms that are reaching out to consumers to establish relationships that rely on a bank in the back-end, it is something that can be pretty confusing for consumers. And so, looking at ways that we can help educate consumers has been a priority.

We have some consumer news publications that we do. We have over 100,000 subscribers to that. And, we send out all sorts of messages to try to help consumers understand, whether they're working with a bank or they're working with a non-bank FinTech company, and to just be aware that there are some differences there. And so, we've tried to communicate that.

And I'd say that raises, as the Commissioner indicated, a number of other consumer protection issues around disclosures and who bears responsibilities for certain transactions. I think our approach on the supervisory side is holding banks accountable for the federal consumer protection laws when they offer their products through third parties. And I think that's the way most banks are seeing it as well, sort of to make sure that if there's something around error resolution or similar issues that pop up that they have good processes in place to make sure that either they're doing it or they have a relationship with a vendor that's managing that and that they're keeping an eye on that to make sure consumers are treated fairly.

We do get consumer complaints from some of these partnerships when, for instance, if someone can't get access to their money. That tends to get them interested in trying to get that as soon as possible. So we do have situations where we get complaints that come in to us, and we help work with the consumers to help them try to resolve those issues where there is a bank involved in the process.

MS. EBERLEY: Okay. Mark, I don't think we have any other hands up at this time. So perhaps we can transition over to your remarks.

MR. PEARCE: Sure, thanks. Thanks, Doreen. And, thanks, it's good to be with you all today. I really do appreciate the comments that were earlier today in the roundtable portion of the meeting. And, I want to touch on a couple of things that some of the Commissioners mentioned.

First, I'd say we share your general supervisory observations related to how banks have served their customers throughout the pandemic. Folks talked about access to bank branches, efforts to work with borrowers who are experiencing financial distress. We saw all of that through our consumer compliance supervision, banks offering PPP, Paycheck Protection Program, loans to small businesses in their communities. Some really positive efforts from banks throughout the pandemic, and meeting the needs of their customers.

We also in some examinations evaluated banks' complaint management program, their ability to handle the uptick in consumers requesting assistance, and also their ability to implement provisions of the CARES Act and particularly those related to mortgage forbearance or credit reporting. And overall, the experience from our examinations is pretty positive as far as how banks have managed their responsibilities to consumers during the pandemic.

Similar to what was described earlier, we've been monitoring our complaint trends -- our consumer complaint trends. They're generally pretty consistent with prior years. We did start tagging and trying to identify which ones were related to COVID or coronavirus, and about 10 to 12 percent of the complaints that we received from consumers did have some relationship to COVID. But I guess the overall message was we didn't see a huge spike in consumer complaints, which has happened in some other past situations where there's been significant financial distress.

And then the last thing that came up this morning that I wanted to just mention briefly is I really appreciated the collaboration with you all on ways to help consumers without a bank account join the banking system. A couple of Commissioners mentioned the efforts in their states related to Bank On coalitions. And, I think the pandemic really brought into belief for a lot of us the importance of having a bank account.

For folks who were looking to get their stimulus payments, but didn't have a bank account, those folks were getting typically their payments much later than those that were able to get it through direct deposit. And so that's just one example of how a bank account can be important to help people manage their financial lives. And I'd encourage any of the folks on this call, if you have an interest in collaborating related to bank account access, let me know.

You can also go to our website. We've got a campaign called #getbanked. And so if you go to fdic.gov/getbanked, you'll find lots of resources around helping people get into the banking system.

The last issue I want to touch on today relates to an issue that may be particularly relevant for some of the folks on this committee, and others may not have as big an impact. It relates -- we all know that we coordinate regularly as part of the dual banking system. And, most of this panel has talked about our federal-state collaboration.

I want to drill down and extend that a little bit to talking about collaboration in the insurance marketplace, in particular, flood insurance. As you all know, for close to 50 years now, federal law has required that banks ensure that flood insurance is secured for certain mortgages on properties that are in areas prone to flooding. And for the most part over history, that's been provided through the National Flood Insurance Program, which is operated by FEMA.

A few years ago in 2014, Congress enacted legislation to encourage the development of private flood insurance marketplace by requiring banks to accept private flood insurance policies that meet certain standards. We finalized regulations pursuant to that statute a couple years ago. And also, as part of that, it addressed situations not just where banks are required to take private flood insurance but also tried to be a little more explicit and transparent about situations where banks can accept private flood insurance in their discretion.

In that situation, since the states rather than the federal government play a lead role in regulating the business of insurance, our approach really looks to the states to determine if an insurer is licensed, admitted, or otherwise approved to operate in that particular state. And, it outlines also issues and situations where banks may accept policies offered by what are called mutual aid societies. These are societies that may typically have a bond like a religious or other affiliation that may not -- that may provide something that looks like insurance, but it's not a traditional insurance company.

And the agencies in issuing the final regulation addressed those mutual aid societies. So in addition to the other requirements that relate to accepting private flood insurance, talking here about ensuring that the policies offer sufficient protection for the loan in accordance with the safety and soundness standards, ensuring that the policy provides the coverage and the required amount, and protects both the borrower and the lender in the transaction.

The agencies also have to determine if the mutual aid policy is sufficient to meet the regulatory definition for flood insurance. And to do that, the FDIC as I mentioned earlier, we look to the state where the property is located. There’s some states, not surprisingly, have taken a number of different approaches to how they view and relate to those mutual aid societies. We've had some that have significant populations in their states with a long history of working with mutual aid societies and others where this really hasn't been a significant issue.

And so one of the things I wanted to mention today as part of our federal-state coordination panel was to mention that we have been working with state authorities, both bank regulators and your colleagues at different banking departments around the country, but also with the state insurance authorities to understand how the state views these types of mutual aid societies and whether they can qualify under our regulatory definition. This is not always easy to do to figure out the status of these mutual aid societies.

So in the event that this has been an issue for you or for others, and your colleagues, I wanted to raise it here in this committee meeting and encourage you to reach out to us if you'd like to explore how these types of relationships are able to meet regulatory requirements for consideration under the federal flood insurance rules. So, that's it for me. I'm happy to take any questions if anybody has any.

MS. KEA: Thank you, Mark. Thank you, Doreen. I'm just doing a quick scan here, and I don't see any hands raised at this time. We've gotten through a lot of information in these short hours that we've had this afternoon.

And although we've exchanged a lot of information, yet it still seems like there is a lot more to get through. But, we will find time in the future to be able to do that. We are at the end of our time today.

Before I turn it over to the Chairman who will give us some concluding remarks and close us out, I would like to ask Board Member, Director Gruenberg, did you have any last thoughts that you'd like to share with the group before I turn it over to the Chairman?

DIRECTOR GRUENBERG: Thank you, Arleas. Just to reiterate a word of thanks to all of the Commissioners for participating today. I found your presentations extremely informative, and I view our partnership with you all really as central to the FDIC's ability to carry out its mission. So we really value this engagement and thank you for participating.

And also wanted to offer a word of thanks to the FDIC staff for their presentations today. As always, they were thoughtful and informative. So, it's been a good day, nice break actually to see you all, and look forward to the next time. Thank you, all. Thank you, Arleas.

MS. KEA: Thank you, Director Gruenberg. At this point, I'd like to turn it over to Chairman McWilliams.

CHAIRMAN McWILLIAMS: The Chairman just got the camera working. Can you see me, Arleas?

MS. KEA: There.

CHAIRMAN McWILLIAMS: Can you see me?

MS. KEA: We can see you. We can see you, yes.

CHAIRMAN McWILLIAMS: Oh, perfect, perfect. Thank you, Arleas. Thank you, Marty. I profoundly want to thank the Commissioners for joining us today. I know that it is exceptionally busy in their states with the pandemic response; and the stimulus package being distributed; and doing just general supervision; and mentoring and developing staff.

I cannot thank you enough for giving us what essentially ended up being almost an entire day of your time. But I also cannot thank you enough for the perspective that you provide to us because it is exceptionally valuable. Marty touched upon it.

But I will just tell you that, yes, I talk to some of you from time to time and, yes, we have different fora through which we can communicate. But, having you all around the table and kind of teeing off of the same topic, or similar topics, and seeing how each state is responding to some of these topics is extremely valuable to us. And it also frankly helps us develop policies going forward as to how to strengthen both our cooperation and teamwork, but also the way we regulate our entities jointly, et cetera.

And I also want to thank you because the FDIC staff here today, as always, extremely knowledgeable, extremely helpful. But the Commissioners, I want to thank you because I've seen some of them for the first time in many, many months with a suit and a tie. So, you succeeded in something I haven't succeeded in several months.

But I'm optimistic that with the vaccination rollout, and thank you for the information you provided on that in your states. With the vaccination rollout, we're looking at the end of the tunnel and the light at the end of the tunnel. And so I'm hoping that next meeting we have, I think it's probably going to be in the fall, is in person.

And I hope that you and your families are staying healthy, your staff as well. And, I wish you very best as you navigate the remaining months of the pandemic. I want to thank you profoundly for both your support, but also your friendship and the words of encouragement from the FDIC. Thank you and God bless you.

(Whereupon, the above-entitled matter went off the record at 4:25 p.m.)