FEDERAL DEPOSIT INSURANCE CORPORATION

\+ + + + +

ADVISORY COMMITTEE OF STATE REGULATORS

\+ + + + +

MEETING

\+ + + + +

MONDAY,
OCTOBER 24, 2022

\+ + + + +

The Advisory Committee convened at 2:00 p.m. EDT in the Federal Deposit Insurance Corporation Board Room at 550 17th Street NW, Washington, DC, Martin J. Gruenberg, Acting Chairman, presiding.

PRESENT:

BRET AFDAHL, Director, Division of Banking, State of South Dakota
KEVIN R. ALLARD, Superintendent, Division of Financial Institutions, State of Ohio
CHARLES G. COOPER, Commissioner, Department of Banking, State of Texas
JAMES M. COOPER, President, Conference of State Bank Supervisors
THOMAS C. FITE, Director, Department of Financial Institutions, State of Indiana
KEVIN B. HAGLER, Commissioner, Department of Banking and Finance, State of Georgia
MELANIE G. HALL, Commissioner, Division of Banking and Financial Institutions, State of Montana
DAWN E. HOLSTEIN, Commissioner of Banking, Division of Financial Institutions, State of West Virginia
I. LISE KRUSE, Commissioner, Department of Financial Institutions, State of North Dakota
ANTONIO P. SALAZAR, Commissioner, Office of the Commissioner of Financial Regulation, State of Maryland

ALSO PRESENT:

MARTIN J. GRUENBERG, Director, Federal Deposit Insurance Corporation, Acting Chairman
ROHIT CHOPRA, Director, Consumer Financial Protection Bureau
DOREEN EBERLEY, Director, Division of Risk Management Supervision
MICHAEL FARRELL, Counsel, Legal Division
ASHLEY MIHALIK, Chief, Banking and Regulatory Policy
JONATHAN MILLER, Deputy Director, Division of Depositor and Consumer Protection
SHAYNA OLESIUK, Deputy Director, Division of Insurance and Research
TARA OXLEY, Associate Director, Division of Depositor and Consumer Protection
BETTY RUDOLPH, Director, Office of Minority and Community Development Banking
CAMILLE SCHMIDT, Section Chief, Division of Risk Management Supervision
MICHAEL SPENCER, Associate Director, Division of Insurance and Research

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

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

2:01 p.m.

ACTING CHAIRMAN GRUENBERG: Well, good afternoon, everybody. Nice to see you.

(Laughter.)

ACTING CHAIRMAN GRUENBERG: In person. My goodness. This is the rule going forward, by the way. I declare an end to virtual meetings --

(Laughter.)

ACTING CHAIRMAN GRUENBERG: -- if at all possible.

So I'd like to welcome you all to this meeting of the FDIC's Advisory Committee of State Regulators. And we have a lot to talk about. We've got a full agenda this afternoon.

I feel we should begin if I may with an acknowledgement of our friend and colleague John Ryan, the former president and chief executive officer of the Conference of State Bank Supervisors. John was a very special person. It was a shock to all of us when he passed away earlier this year and I think we'll all be attending the service for him later today.

And I also want to welcome my friend Jim Cooper to the Committee. I think CSBS was fortunate to have Jim available to step in to the role of president and CEO of CSBS.

Thank you for your willingness to serve on this committee.

MEMBER J. COOPER: Appreciate it.

ACTING CHAIRMAN GRUENBERG: And we look forward to our continuing work and engagement with you.

And with that I'm going to turn the meeting over to Doreen Eberley, the director of our Division of Risk Management Supervision, who will start off our agenda for this afternoon.

But before I do that let me acknowledge the presence today of one of our board members, Director Rohit Chopra, of the CFPB.

Rohit, did you want to make any --

DIRECTOR CHOPRA: No, I just want to echo what you say. It's really good to see people in person again. Obviously my agency has day-to-day work with all of you, bank and non-bank. And really excited to see this all coming again together, so look forward to the discussion, Marty.

ACTING CHAIRMAN GRUENBERG: Thank you, Rohit.

Doreen?

MS. EBERLEY: Okay. Thank you. Thank you, Acting Chairman Gruenberg and Director Chopra. And welcome, everybody. It's really good to see everyone.

So we're going to start this afternoon by turning to Shayna Olesiuk, Deputy Director of National and Regional Risk Analysis in the Division of Insurance and Research, and Camille Schmidt, Chief of the Risk Insights and Analytic Section in the Division of Risk Management

Supervision. And Shayna and Camille are going to provide an economic overview and they'll touch on market liquidity and credit risk, to things we've been talking about.

And after their brief presentation we'd like to hear from the Committee regarding whether there are any particular risks that we've talked about that resonate with you and whether there are other risks and concerns regarding institutions in your state that you'd like to highlight.

So Shayna will get us started.

MS. OLESIUK: Thank you very much, Doreen.

And welcome, everyone. I'm very much looking forward to the discussion and particularly hearing from all of you in response to our discussion today.

So we can go to the next slide. So Camille and I, our teams write what we call the FDIC's Risk Review Report, and we've been publishing this report annually for the last several years. And so today's discussion will focus on three sections of the report: economic conditions, market and liquidity risk, and credit risk.

And so we will highlight some of the aspects of these topics from the report. And then as Doreen said, we'd very much like to hear from all of you. We're already starting to brainstorm next year's report, and so we are always looking for additional risks that we should highlight.

So we can go to the next slide which gives a sense for the labor market conditions and particularly the labor market recovery from -- following the pandemic. So the states here are highlighted and shaded based on the share of jobs that were lost during the early days of the pandemic. The states shaded in gold are those that have regained more than the national share of jobs. And the states that are shaded in blue are those that have trailed the national pace of recovery. Those that are darker gold have -- are the best performers and then the darkest blue are those that have lagged the most.

So a couple observations here: We definitely see that there are regional patterns that have emerged in the economic recovery. The Mountain West Area and the South are certainly the strongest areas and the Northeast and the Upper Midwest are relatively weaker.

So this analysis went through December of 2021, but looking at the most current data through mid-2022 we see that the national employment recovery has continued. The national rate of recovery, as you can see in the -- at the bottom of the legend here, as of the end of last year the nation had recovered 84 percent of the jobs that were lost during the pandemic.

That number surpassed 100 percent this past summer. And the states that have recovered 100 percent or more of the jobs that were lost is now up to 24, so almost half of the country has now recovered all of the jobs by count that were lost during the pandemic. Of course there's industrial variation, so some industries are still lagging whereas other industries have done better.

And the unemployment rate has stayed very low. We are currently at 3.5 percent unemployment, which was the same as the pre-pandemic level back in February of 2020. There are currently about two job openings for every person seeking employment right now, so I think that really illustrates how tight the labor market is. And that has led to inflation, or has contributed to inflation.

So we can move to the next chart which shows a picture of the inflation. Now again this is from our Risk Review Report which goes through the end of 2021. The numbers have climbed even higher in 2022. Here you can see that both the Consumer Price Index as well as the Core Consumer

Price Index are both at levels that we haven't seen for decades. As I said, the wage inflation is certainly contributing to this as well as energy prices and housing prices. So certainly an area that we're watching. And the outlook for inflation is really quite uncertain. There are lots of factors that are playing into it.

So I think I'll turn it over to Camille, but would be very much interested in hearing your reactions on both of those topics during the discussion.

MS. SCHMIDT: Thank you, Shayna.

It is nice to see all of you this afternoon.

Interest rate risk and liquidity risk, I'm going to talk about that a little bit. It's certainly been a scenario that's been evolving since the pandemic started. You're all aware that banks have been flushed with deposits since the beginning of the pandemic when economic stimulus was injected into the system and consumers and businesses slowed and even stopped spending in some cases. So since the pandemic started we've really seen a steady deposit growth at all the banks.

In fact it was just last quarter, in second quarter of '22 the deposits in aggregate declined for the first time in four years. But even then a little over half of all banks still, 51 percent of them, reported higher deposit balances compared to the previous quarter. And community banks, that population in aggregate continued to report deposit growth. Albeit only about a half a percent, they have not seen a decline in deposits.

So if you move to the next slide, and we look at this high deposit growth combined with what has been slow loan demand since the pandemic started, we've really seen what's resulted in significant liquid asset growth at our banks. And that’s primarily securities, that gold box on this chart.

So banks have more securities and in this low interest rate environment, or what was until recently, institutions were searching for higher yields by extending the maturities of their securities. Then along comes 2022 and the Fed started raising interest rates to combat the inflation that Shayna just talked about and banks now have fixed-rate assets including bonds that are declining in value.

So many banks recognized significant net unrealized losses in their long duration bond portfolios in the first and second quarters of 2022, and they are certainly poised to report further net unrealized losses in the third quarter. In fact, early reporters -- through Friday I think 96 percent of all early call report filers are reporting net unrealized losses on their securities. And I apologize if I said gains anywhere.

Of course we know that these unrealized losses and debt securities could reduce on-balance sheet liquidity as well as contingent liquidity. So this is high on our list of things we're watching. It's certainly a new environment for many bankers and examiners who haven't operated in a rising interest rate environment. We just completed our Regional Risk Committee processes where -- which we conduct in the spring and fall, and five of our six regions rate interest rate risks as a high risk or one of their top priorities.

So we've addressed this through our off-site review programs that are in existence. We've had case managers contact different banks. We also maintain our interest rate and liquidity risk monitoring programs as well as we've conducted examiner calls and will continue to develop training in this area.

So I'm certainly looking forward to your comments. We've discussed this topic for hours; I've shortened it greatly, but I'm -- so I'm looking forward to your comments at the end.

MS. OLESIUK: All right. Our final section that we looked at in the risk review and that we'd like to discuss today is credit risks. So the report itself highlighted many aspects of credit risks. I will just be talking about two today.

So first off we have commercial real estate, which is certainly an area that has seen a lot of change during the pandemic and in recent time. This first chart shows the net absorption as a share of inventory for four commercial real estate types. So basically this is a measure of demand for commercial real estate properties.

And the most striking thing about this chart to me is the office market, the red line, which you can see was performing well through December of 2019, but then as the pandemic ensued, December 2020 and into 2021, we saw negative net absorption. So essentially more space being added to the market or current occupants of office space vacating that office space. Not shown on this chart, but if we look at the vacancy rates you'll see vacancy rates for the office market rose sharply in the early days of the pandemic and have really stayed at that elevated level even now. So the commercial real estate market, particularly office, is certainly an area that we're watching closely.

If we go to the next slide, one of the main reasons that we're watching commercial real estate so closely is that banks continue to make more and more loans to commercial real estate projects. This bar chart shows the amount of loans outstanding in each of the four types of commercial real estate. So you can see that the non-farm, non-residential, the gold segment here, basically existing commercial real estate properties, still maintains its spot as the largest type of outstanding commercial real estate.

The multifamily segment, the red segments of the bars here, is an area that's really grown. And at the same time the acquisition, development, and construction, the darker blue segment has really maintained its amount over the last several years, but as a share of total outstanding commercial real estate is a much smaller portion of total outstanding loans than it was back in 2008. So definitely an area that banks of all types, particularly community banks, are invested in. So we're watching conditions there closely.

And finally moving onto the residential real estate markets. Residential real estate is certainly an area that's been in the news quite a lot lately and is certainly an area of focus for us. So this chart shows the year-over-year price change for residential real estate in the four major segments, four major geographic regions of the country and the U.S. So through the end of 2021 we were starting to see the rate of price appreciation slow. That has continued to slow through 2022 and we're watching it closely in terms of how much it will slow even further.

We don't do our own house price forecast, but we look at many different sources of that information, and it really varies. Some metro markets are expected to see outright price declines over the next couple of years. The most common forecast for the national numbers are a continued slowing of appreciation, but not dropping negative like we saw during the last recession. So we're going to continue to watch that closely.

One indicator that we are tracking, if you go to the next slide -- so the dark blue line here is the amount of homes for sale based on the pace of home sales. So the number for the balanced market is about six months, where you can see that dotted blue line. Through the end of 2021 there were so few homes for sale, that number had dropped to about just two months of inventory. Into 2022 it's climbed up above three months, but it is not yet close to that six-month balanced market. Essentially homes are being taken off the market, so we are not seeing a lot of homes for sale on the market, which is a good thing to prop up home prices.

And finally, the last slide looking at asset quality for residential real estate at our banks. This bar chart shows the share of banks with one to four family past due rates in each of these different buckets. So the main takeaway here, if you look over to the 2021 bar, you can see that about half of banks had one to four family past due rates in the 0 to 1 percent category. Compare that to 2019 where that was about 33 percent and even lower back in 2011, 2012. So lots of banks have very strong asset quality for the residential real estate market, so we're heading into this potential period of stress in really good shape it looks like from a credit quality standpoint.

So with that I think we are ready to

hear from all of you. I think we're just wanting to open it up to anyone that wants to react to either of these questions.

ACTING CHAIRMAN GRUENBERG: Shayna, in the in-person world how do you raise your hand and turn on your camera?

(Laughter.)

MS. OLESIUK: I think just push the button there and it should --

ACTING CHAIRMAN GRUENBERG: Okay. Just a question, I think. And back on page 7 and where it goes into 8 -- and so -- and both of you all said this is end of '21 data. But particularly on page 7 as these -- maybe I guess we're probably -- at least have six months of '22 data. Do you see -- on page 7 --do you see much change in these lines, or is it worse than flattening out, so to speak?

MS. OLESIUK: So particularly with the office market we are not seeing much in the way of change. The vacancy rate remains elevated and really from what we're seeing on the -- just companies' use of office space I think more and more are sort of reevaluating how much space they need in this new environment. So I don't think these lines have changed much in the past couple of quarters.

Now I would say particularly for the office market as well the office market leases tend to be longer term. Five years or so I think is the typical length of a lease for office property. So we might not be -- for leases that are not reaching that due date maybe for another couple of years we may see a continuing evolution of vacancy rates rising as these leases come due and tenants are actually kind of forced to make a decision on what they want.

MEMBER J. COOPER: Thank you.

MEMBER HAGLER: I feel like I'm the choir that you're preaching to largely. Out of 122 banks all but 2 of them are shared with us regulatorily.

The liquidity piece really rings home to me. In an environment where it seems like we've just been overwhelmed with liquidity it seems like it could turn quickly on us. As you pointed out, my banks are still paying well below one percent, yet I know that there are entities out there paying three percent. And what's even more amazing is those entities are reaching out to their customers and telling them that they've raised your rate, raised your rate, and raised your rate instead of you having to play the game of calling institutions. I mean, when was the last time a bank told their customers they were just raising it independently. So you've got that happening. So I think deposits are either running off or preparing to run off pretty rapidly there.

The securities holdings, absolutely all those are under water. So one thing that we're seeing is liquidity reporting to the board at the bank that shows a lot more than is truly available because you can't really cash out those without taking a pretty good hit.

And then to make it even worse, a number of our banks -- and I'm looking forward to seeing the 9/30 numbers as how many of that number is that are actually in a negative tangible equity position, which I think significantly impacts the Federal Home Loan Bank's ability to borrow.

To the Federal Home Loan Bank of Atlanta's credit we've raised that issue with them and they have proactively been talking to the banks letting them know that they may not be able to lend to them or to a much truncated degree.

So I just see -- I don't think I have a cake here, but I see a lot of ingredients swirling around in there that could change the -- we could go from a way too much liquidity, if there's ever such a thing, to a we've got some tight situations pretty quickly.

The CRE piece, I think you all have been doing a great job of telecasting out your concerns to the industry with the guidance and additional notations there. It looked like the South and the West, we're kind of leading the -- or driving the average up and we're both above average. That's what I see in the portfolio, too.

Again, out of that 122 banks 45 of them have a pretty healthy gross CRE concentration. You net out the owner-occupied, it takes you down to about six, but I'm not so sure I feel how comfortable I am with that netted number be a really good -- I guess after what we went through with the Great Recession I'm just a little gun-shy about that still. But that does moderate it a good bit. Probably 16 or 17 have that ADC concentration out there.

That said, all those banks are being subjected to CRE work programs and such, so I think we've got a lot better insight into what's going on there. Capital levels are much better than they were last time around. So there are mitigating factors. But you just can't have a good recession without a CRE crisis, so definitely keeping my eyes on that, too.

So, but again, everything that I read through your package and you've presented sounds right on point to my view of the world.

MS. OLESIUK: Thank you.

MEMBER HALL: Shayna, as one of the commissioners from the West I've been enjoying your presentations probably longer than anyone else, since you were in San Francisco for a while. And so I have a couple comments.

Of course being from Montana housing prices are ludicrous at its best. Inventory is incredibly low. Supplies there for building new homes are very hard to get and also very expensive. Trucking costs, all of that. So new home building is 330, I think, something like that, a square foot to build a new home. It's pretty astronomical.

I would love to think -- I don't think it will happen in Montana, because we don't have like all these big office buildings, but I would love to -- I imagine sometimes a lot of repurposing of this office space into residential housing, which to me would make a ton of sense.

I do -- I guess I'm appreciative of the rate hikes because I was getting very concerned about HELOCs and home equity loans due to people -- you know, the housing prices are very high and people get very excited to take out all of that money and do things with it. Sometimes that goes back into their home and sometimes it takes them on vacation. And so I was very worried about that and I'm hoping that the interest rate stuff will slow that down a little and have people keep equity in their homes.

One question I -- and you know, of course in Montana we have a terrible shortage of labor, so -- but we can't get anyone to come there because we can't house them. So it's a challenging situation and the show Yellowstone is not helping that in any way, shape, or form.

(Laughter.)

MEMBER HALL: I'm sure you're all enjoying it though.

So one question I did have though on the CRE numbers. Have you done a comparison of what those are right now in comparison to like a 2006-2007 time frame to see how -- how close are we to that or are we still, because we're measuring it, monitoring it more still significantly below those numbers?

MS. EBERLEY: Are you talking about the condition of markets or the exposures of our banks?

MEMBER HALL: The exposures of banks. Sorry. On the CRE front. Like I mean, most -- I don't think I have a single bank that is over -- maybe one or two that are over 400 percent. And

I think I would guess in 2007 they were more like in the 600 percent. I'm not certain. I'm just curious whether that's something that you're looking at.

MS. EBERLEY: It is, yes. Camille probably has the numbers on that.

MS. SCHMIDT: I don't have the numbers right hand, but concentrations are certainly lower than they were, but they are rising. And ADC is increasing. Especially we're seeing those -- banks with those concentrations above 100 percent of capital rising and ADC in the pipeline, like unfunded commitments. So both of those, ADC and unfunded commitments, are going up and that's what's driving some of the increase in the CRE concentrated -- concentrations that we're seeing.

MEMBER HALL: It's quite a bit lower, isn't it, Camille?

MS. SCHMIDT: Quite a bit lower.

MEMBER HALL: Great.

PARTICIPANT: Yes, I had the same thought you did, Melanie. I was wanting this chart to back to '05.

(Laughter.)

MS. OLESIUK: And that chart is showing just outstanding dollar amounts, but when you look at it, it's --

(Simultaneous speaking.)

MEMBER HALL: That's why I was curious about the concentration percentages --

MS. OLESIUK: Yes.

MEMBER HALL: because -- yes.

MS. OLESIUK: One other thing that I would note though, in our quarterly banking profile we're looking by portfolio, and the last couple commercial real estate, especially for community banks, has been one of the areas where we've seen the fastest loan growth. So there definitely is growth continuing.

MEMBER C. COOPER: You said by portfolio? You're talking about portfolio in your regions or portfolio in the categories of loans?

MS. OLESIUK: The categories of loans. So commercial real estate is one of the fastest areas of loan growth.

MS. EBERLEY: And to another point that Kevin raised, after the crisis we did implement the Commercial Real Estate Work Program to look at institutions that were the most concentrated and record our findings there and take a look across the agencies even. And that data shows improvements in underwriting and risk management practices really slight upturn in the most recent quarterly review. Not a trend; a little tiny upturn. But in things like board management oversight, stress testing, limits --

MS. SCHMIDT: Management information. Yes, board management oversight is the big one that we've seen since we implemented that program followed by issues with management information systems, portfolio management, and the stress testing.

We're also seeing board management issues come up the most in MRBAs when we kind of analyze those numbers and in our credit surveys information.

MEMBER J. COOPER: So just a quick observation: A lot of the central business districts, particularly in smaller mid-size cities, are in transition right now away from office space. And Melanie mentioned some of them are looking at transforming those into residential real estate. It doesn't appear that that has happened. I think, Shayna, your point about there are still leases on these properties, but not very many people in them. And I think depending on how the office space evolves could be risk there. So interesting in observations on that or how you're kind of watching that risk.

MS. OLESIUK: Yes, I think you're absolutely right, that I think it's going to be an evolution over coming three to four to five years as leases come due and then we're going to really see kind of what decisions companies are going to make in terms of are they going to give back some of that space or they going to renew leases?

So we saw a big spike in the vacancy rate initially. That's kind of leveled off. It's still increasing, but at a much slower rate. So we're going to continue watching that over the next couple of years.

MEMBER J. COOPER: Yes.

MEMBER AFDAHL: See, one thing that hasn't been mentioned, I think the impact to the low to moderate-income folks. It seemed like during the pandemic everyone and their dog probably got some form of fiscal or monetary stimulus. But I think the folks that owned assets did the best between the market and different programs.

And I don't have it; this is all anecdotal, but I received an email from our school this week talking about kids that are more than 15 days behind on paying for lunch are no longer going to get lunch. And maybe this is just a transition risk going from the USDA paying for lunches the last two years and now they're not and people didn't budget for that.

But any warning signs on personal bankruptcies or subprime auto defaults or anything like that you're tracking? I mean, this isn't an area I have great insight into, but I'm just locally starting to see some of that and people in upper income brackets are really feeling the pain at the grocery store and things, especially folks with three young boys that --

(Laughter.)

MEMBER AFDAHL: -- like eat our house every day. So I mean, I just can't imagine people down on the lower end of the wage scale -- what that's doing. They might have got a little increase this year, but it certainly doesn't make up for year-over-year inflation.

MEMBER SALAZAR: Can I follow up on Bret's comments, because --

MS. OLESIUK: Of course.

MEMBER SALAZAR: -- he beat me on the buzzer on that point on the last slide. I was just going to comment from Maryland's perspective. And, Bret, you mentioned coming forward. We track foreclosures in the state of Maryland. We can track it down to the particular census area and everything. And what we're seeing -- I know it's not necessarily the insured institutions, right? They seem to be doing okay. But we are seeing the foreclosures are going back up to where they were pre-COVID and before that.

And then to Bret's point, we're particularly seeing them once again in poorer communities, communities of color. And so just -- you're hearing another backing up of that point.

MS. OLESIUK: I completely agree with you both. And we were actually trimming this slide deck, and the area that we trimmed was a look at the consumer sector. So we're certainly looking at that. And you're both right that the support that consumers got during the pandemic with direct payments -- that most of those programs have ended and we're starting to see -- and it varies by income level and income bracket, but we're starting to see consumers burning through their savings at various rates.

When we look at the banking numbers, the -- we've started to see credit card balances rise, so I think that's another indicator that savings are again at various levels of being depleted and consumers are turning back to credit cards to support spending.

And then one last point, in the second quarter quarterly banking profile we actually noted at the early delinquencies, not those that are non-current yet, but 30, 60, 90 days past due in consumer loans -- those are starting to tick up, not to levels that I would say are concerning, but just as far as another trend kind of supporting what both of you are saying.

MS. SCHMIDT: Yes, we've been trading a lot of emails, though I would say that we need to point out that we're starting out with households -- are in very strong condition. Mortgages have been to borrowers with high credit scores. Auto lending is concentrated in prime and super prime.

And like I said, the government support, lower interest rates, some lower spending in all these years, combined with what we talked about. Higher wages have -- has contributed to some -- we have some charts where the consumer -- their excess -- they've got excess savings right now, but at the -- we're starting to see little things that are starting to erode that position.

DIRECTOR CHOPRA: Can I just offer a couple comments here, which is our view into this is heavily also the non-banks. So I -- and very,

very heavily through credit reporting data and our own supervision of non-banks. And I would say overall the story we are seeing is one of normalization. Delinquencies going up across the categories but not in a frightening way. There are some exceptions there.

I do think the growth in outstanding auto loans is extremely significant. Obviously heavily driven by the cost of new and used cars. At the lower credit tiers of auto, which is quite significant outside of the insured banking system, we're starting to see some real trouble there, but again in ways that we recognize.

With respect to credit cards it's not clear to us how much inflation is having an impact there because when you look at the categorizations, it's very, very big spend in travel, dining, and entertainment. So this does suggest a story of some latent demand for being out and about again and not necessarily one where households are really under strain. Though of course there's regional differences. There's obviously income differences within it.

With respect to mortgages we are seeing a significant increase of share of adjustable rate mortgages. I have been sharing with many of you that the adjustable rate mortgages of today are very, very different than the ones of pre-2010. They are QM overwhelmingly. They do have ability to pay tracking over a number of years.

My job is to be paranoid, but I'm trying to be realistic about it. We obviously do have those worries about HELOCs increasing very substantially, though we're not seeing anything too frightening yet.

And then of course we have been in a payment pause on student loans for almost 40 million people. Our data suggests that student loan borrowers who have been in the payment pause we are seeing some real delinquencies and stress in their other credit applications. So when the payments turn on in January I do expect that that will be something that really affects the household, and obviously what ends up happening with the cancellation will be part of that.

But overall we are -- it's no surprise that because the labor market is still fairly strong the household is fairly strong. But understanding how inflation is playing into that, it's still a little bit cloudy in understanding.

MS. EBERLEY: Thank you. That was a nice wrap-up to our conversation. It's time to move on on the agenda.

So thank you, Camille and Shayna.

Our next item, we're going to touch on a few matters. We'll start the discussion with an update on FDIC's return to banks. And for that I'm going to be joined by Tara Oxley from the Division of Depositor and Consumer Protection.

And I can go ahead and kick us off a little bit. I'll talk from the perspective of the Division of Risk Management Supervision. And I think we've said this at several meetings, but it bears repeating because it's hard to believe honestly that when we all left the office in March of 2020 on that Friday I think we all thought we were going on a two-week pause, right? Two weeks of working from home. And here we are two-and-a-half years later just getting back.

And I do think it's very fortunate; we've talked about this before a little bit as well, that we really had laid the groundwork for working off site before that time. We started back in 2016, a real concentrated effort at FDIC, to try to move some additional examination work off site. And it was a retention move for us. Examiners told us the number one reason they left the FDIC was travel, right? And that's probably always been the case, but particularly with our newer examiners. And we needed to retain them to provide our pipeline.

So we started focusing very hard on

how could we change that? And we tried different things. We started using Webex to look into institution systems and do remote access. We used Project FIVE, which you'll be familiar with, the file image viewer for examiners to pull data from the loan image processors and put it in a standardized format. I mean we just made a concerted effort to talk to examiners about what kind of work can you do off site and take advantage of that? What are the obstacles?

One of them was that they valued the table talk around the board room table and they didn't find space in our field offices to do that. So we went down another path of field office modernization to create collaborative space and Wi-Fi in our field offices so they weren't tethered to a cubicle that had a plug to connect to the internet. They could all sit around a table and have access to the internet and work together and have those discussions somewhere outside of the bank.

And because of those efforts we actually had increased before the pandemic our off-site hours, the percentage of our exam hours conducted off site from about 32 percent in 2016 to 47 percent at year-end 2019. So then we quickly transitioned to 100 percent.

And I would say we operated under a mandatory telework until this past April when we moved to the second phase of our Return to Office Plan, which was maximum telework. And during that period staff were permitted to come into the office, but not required. And although it was functional and we got our work done, it's not been optimal.

So we were very excited to move to a new hybrid work environment on September 6th. And we call that Phase 3 of our Return to the Office Plan, or RTO. That's our shorthand. And so as of that date each safety and soundness exam that was in process or started after that date has had an on-site component.

I think the new hybrid work environment expanded flexibilities to all FDIC staff that examiners had enjoyed before, which was a home-based option which allowed staff to work from home when they didn't need to be in the bank or in the office. They didn't automatically have to default to working in the office if it wasn't necessary.

We did conduct a limited number of in-person exams over the past two-and-a-half years and we certainly learned from those. We actually collected feedback from the examiners in charge after each one for best practices and recommendations from when we made our transition.

And we also gathered feedback from a couple of activities. We conducted our own internal lessons learned jointly with the Division of Depositor and Consumer Protection and had a team that did surveys of staff and focus groups and really talked about what things worked well, what things didn't work well, what should we think about for the future, what should we keep, and what should we abandon? And then we also had a request for information where we asked for information from bankers about their thoughts.

And so we have built some of that into our program. A big one is cameras on for virtual meetings, right? We've all heard that. And that you -- we miss a lot when we're not face to face with bankers and you don't have just even what we're having now with looking around the room and you see heads nodding. You don't have that when it's just dots on the screen. So it's important.

A second big one was developing and agreeing upon communication plans up front. And this was with bankers, but also among team members. If you've got team members in different places, some are going to be in the bank, some are going to be working in the field office, some may be working at home. How do we make sure that whole team is still functioning as a team and having a plan for that in addition for having a plan for how is that team then going to talk to the bank and bank management and do it in a way that's not burdensome and that is highly effective? So another big piece of our plan.

And then the third was adding some new technology to help us. And we're still working on some tweaks with that, but looking at ways to connect the staff that's sitting in a field office with the staff that's at home and the staff that's in the bank and creating an environment that feels like everybody's together.

We're still working on some tweaks and we're stealing this from DCP, but -- it was their idea and we're piggybacking, but to use Microsoft Teams to make collaboration easier with Teams Sites actually, not just Teams itself, but creating Teams Sites to make the collaboration easier with banks and with our state counterparts. So that's a to-come, but another thing that we're working on.

So, Tara?

MS. OXLEY: Hi there. Good afternoon. Well, no, I like that you highlighted how we worked together on this because I do think we're trying to do things similarly and learn from each other. So I just wanted to highlight a couple things related to our consumer compliance examinations.

So we conducted them in a hybrid environment even before the pandemic. Over the past five years we've seen an increase in our off-site exam hours. We had 36 percent -- 36 percent of our total exam hours in 2016 were off site and it went up to 65 percent by the end of 2019. So now that we're returning to banks we expect to have roughly the same percentage, around 65 percent, off site, but we don't have a benchmark. We don't have a requirement that we have to perform a certain amount of activities off site or on site. It's really based on the facts and circumstances of each back.

What I wanted to note here today was really that the examiner in charge is really going to look at the situation and decide the most effective examination plan. So they're going to consider the institution's business model and risk profile, look at their loan file imaging, seeing what records they have both in hard copy and electronically, looking at the institution's work space, talking to the banker, seeing what their preference is, and then looking also at our counterparts, both in RMS as well as our state agencies to see if they're going to be on site during the same time. So really it's going to depend on the facts and circumstances, but we're definitely moving forward and have moved forward effective September 6th with being on site.

That's all I have.

MS. EBERLEY: And maybe just wrap-up by saying that what we hear from the regional directors in our regular conversations is that you all are doing the same thing, but if you have any thoughts or other items that we should consider, happy to hear them.

MEMBER FITE: Definitely doing the same thing. So during the whole crisis it's been a matter of like how we keep our people working together internally in Indiana. How do we keep them training each other and keep that kind of flow of information going and the mentorships? And now I think that we transition back on site maybe it will move now to like how do we work together, right? For joint examinations how do the FDIC and states also go through that same process now to make sure we're communicating with each other. And I hope it goes back to where it was.

This is one thing I talk about a lot is last recession, 2008, 2009, 2010, I was managing a lot of field work and at that point in time one positive outcome we had was our people, FDIC people, we're one and the same. We did so much joint work that it was really hard to tell I think where say a state person, FDIC person, other than a name badge, maybe that knows any difference, and the banker is even confused us.

So I hope we get back to that again in a now-quasi virtual environment, but I think it will take some effort as we all go back to kind of a normalized environment. And I think our examiners when they see each other will have the same feelings we have today, right, when we see each other of good to see you again. Glad to be back on site. Missed seeing you. However there's also a group of people that started in the last two years that don't know each other. I mean how do we get them to work together as well might be a little bit of a challenge for a little bit.

MS. OXLEY: That's a very good point. I think people are looking forward to working together in person again.

PARTICIPANT: Any idea how many

employees you have who have never been in the bank? I mean I know we have several at this point.

MS. OXLEY: I'm sure we have the data. I just don't know it offhand.

MS. EBERLEY: It’s fewer now than two months ago.

(Laughter.)

MS. OXLEY: Yes, that's true.

ACTING CHAIRMAN GRUENBERG: I do know I think during the pandemic -- the last two-and-a-half years I think we on-boarded about 600 employees at the FDIC. That's across divisions. So until the last few weeks most or all of those people had never been in an FDIC facility. So bringing them for initial set of meetings to meet their colleagues was a new social experience and I think generally well received.

And one point that Doreen may want to expand on is we weren't sure when we moved to the virtual examinations whether that would prove to be more or less efficient than on-site exams. And I think one significant lessons we learned from this episode is that an entirely off-site exam program appears to be significantly less efficient than an on-site program.

And that was a -- we have a statutory requirement in terms of getting examinations done over the course of the year and the fact is that having to do it in a virtual arrangement made that more challenging that it might otherwise have been.

And, Doreen, it might be worth commenting on, because I would not necessarily have expected that result.

MS. EBERLEY: Sure. It really did. And I got triggered to look at this very, very early on. I was able to receive a download of several reports of examination, and I read about 40 in a weekend. And I was struck that in each one the examiner commented that the exam took longer than the budgeted hours. And is something we track, but it caused me to track it much more closely and ask for updated data from my staff on a regular basis.

In the first couple months I want to say we were maybe 35 percent over our benchmark hours. And benchmarks are not the actual exam hours that are budgeted for a given exam, but it's the average that we expect for a given bank of a given size and rating that goes into our budgeting process, into our staffing models. And so we've always tracked actual hours aggregate to benchmark hours aggregate.

And we were running about 35 percent that first month. The second month it jumped up to 50-some-odd percent. And after that it kind of leveled off. And we have been at 40 percent the entire time over benchmark.

I have heard anecdotally from field supervisors; I don't have numbers to document it yet, that they've had examiners say oh, I'm giving back hours, we're done early, ready for the next assignment, just in the last month or so, that they're recapturing some of the efficiencies that we lost, which will certainly be very helpful because it's been tough. It's been tough.

MEMBER HALL: So I wanted to say that it's been -- we've been back in banks for a little over a year now and it has been an interesting process. Number one, now that we are back fully in banks our newer examiners don't know -- did not know that exams were only supposed to take two weeks. There was just this sort of fluid, much more you might start one and then you might start another, and then you might -- it was just much more fluid in terms of the timing. And the first time some of our newer OMs and AMs got the like I need your bullet points by Wednesday of the second week, there was a bit of a freak out because that had not been expected. And so I think setting some of those expectations is helping with some of that efficiency as well.

That said, in a state like Montana we are committed to a hybrid program. We are not going back on site full time with all these examiners for multiple weeks. We've set up spaces for training around the table so that we can mimic the feel of being in the bank in some ways because we only have two field -- we have a main office and a field -- and a remote office in Billings.

And Montana is just too big and it impacts our examiners' lives too much. And as much as I want to also provide good service to our banks and not put additional burden on them, I want my examiners to have children and belong to a gym and have lives that are productive and also fulfilling. So that is something that we are really very firmly committed to.

Additionally, the one thing I wanted to say is when I first started at the division in 2011 the FDIC was doing a program which I think was the result of maybe things not going so well for a couple years, and it was around communicating bad news. And there was -- it was kind of a communications course on talking to management when you have to deliver sort of not ones and twos. And I think it would probably be a good course to dig out of some box because we are going to be having some challenging times.

I think there's going to be some tough communications, but also we have people that have simply never communicated in person either to a board and that's a very different thing. Having to sit across the table from somebody and say we have concerns about X, Y, and Z is really quite different than sitting safely behind your computer.

So I think it would be good for the states and the FDIC to work together on sort of digging out and doing some examiner communication education just to kind of remind people what it means to make eye contact and say we're really sorry but you're performing in a less-thansatisfactory approach.

MEMBER AFDAHL: Yes, Melanie, I think that's a great point. I think I'd leverage off that a little bit because I think at least early on there was a lot of effort to provide accommodation to the banks to -- we don't want to be downgrading these loans to businesses in tough times. And I think we've seen that kind of carry forward that the loan review piece hasn't been as thorough as it's been in the past. So I hope that's not an area where getting back time on exams because I think things are changing very rapidly and I think we want to make sure we're doing a thorough exam so that we see the early warning signs flashing.

Because I agree we are going to at some point have to start talking about credit risks. I mean, we've talked about it here a little bit today, but I think it's kind of been the forgotten topic for the last couple years just because so much money was thrown at so many businesses and people from every direction that it -- we kind of flooded businesses with money, the ones that survived anyway.

So that's the one concern I guess have with the process right now and as we move forward is that we skinnied down our lead sheet early on, but we've gone back to the more thorough request list. And I just hope we're not gaining back time by not looking at the loan portfolio like we had in the past because it -- I think that will come back to bite us.

MEMBER HALL: We're also beginning to have conversations with our banks about sort of the gentle approach we've taken with capital over the past couple years because of growing balance sheets and a lot of that being outside of their control, but that has just kind of continued. And at this point they really should be thinking about what they can be doing, whether -- it's much easier as everyone in this room knows to build capital in good times when people feel wealthy and all sorts of good things than it is to put out your hand to your shareholders when times are tough in every -- in their own portfolios.

MS. EBERLEY: I think the key message we've been giving to our examiners is that we're not going to blame bank management for the pandemic, right, but our focus in our examination is how is management responding? So there is a management accountability aspect that has never gone away and that truly is what we've tried to focus our examiners on.

How is management working with borrowers? How are they working to early identify potential vulnerable borrowers and work with them and make sure that they're on the right track and they understand what that portfolio looks like? What are their strategies? What are their strategies with respect to capital, with respect to the influx of deposits? And now what's their strategy with respect to interest rate risk? But consistently going back to how is management planning to respond to the circumstances that keep changing?

Okay. Well, we will move right along. Tara is going to stay up here and she's going to talk now about our supervisory guidance on multiple re-presentment NSF fees that was issued in August of '22. And then she's also going to discuss fees associated with authorize positive/settle negative transactions.

MS. OXLEY: And I'll explain what these are in care people are not aware, too, and also use some acronyms for that exact reason.

So first I'm going to talk about re-presentments and what exactly a re-presentment is just in case people are not aware.

So a re-presented transaction is one where a merchant submits a transaction for payment. We have found that in such situations a financial institution may assess a non-sufficient funds or NSF fee arising from the re-presentment of the same unpaid transaction.

During recent consumer compliance examinations we have found that a bank may violate Section 5 of the Federal Trade Commission Act when it charged multiple NSF fees but failed to properly disclose such practice to the consumer. We've also noted that the practice could be unfair and result in both third-party and litigation risk.

For clarification purposes I did want to note that the FDIC does not have a concern about the initial NSF fee, assuming it is disclosed properly. Rather the concern relates to multiple NSF fees being charged from the same initial transaction.

So as Doreen mentioned, on August 18th, 2022 the FDIC issued supervisory guidance on this issue. We thought it was important to not only raise attention regarding the practice, but also to discuss what banks could do to mitigate the risks associated with the practice and to discuss our expectations relating to make full corrective action. So I thought it would be helpful today to note some highlights from that FIL.

And I think the next slide -- perfect.

First, we encourage institutions to review their practices and disclosures and consider how to mitigate such risk. This could include eliminating NSF fees altogether, declining to charge more than one NSF fee for the same transaction, and providing clear and conspicuous disclosures that explain the amount of NSF fees, and when and how such fees will be imposed.

Second, the FIL notes that examiners would general not cite a violation where an institution has self-identified the violation and fully corrected the issue prior to the start of the consumer compliance examination. Full corrective action includes providing restitution to harmed customers.

We've been meeting with several groups over the past few months to discussion this issue, including several bankers' associations, trade groups and service providers. These meetings have been extremely helpful.

One of the questions we've received relates to identifying these transactions, as we understand that this can be a manual process. We encourage banks to review and understand the risks presented from their core processing system settings relating to multiple NSF fees.

It's important that institutions understand the capabilities of their core processing system, such as identifying and tracking re-presented items in maintaining data on such transactions.

We will consider an institutions challenges with retrieving, reviewing and analyzing re-presentment data on a case-by-case basis when reviewing the time period institutions should use for remediation.

So, I'm going to discuss the next issue as well and then I'll go back and see if anyone has any questions on either of these issues.

So next we're going to be talking about authorized positive/settle negative. And we usually call is APSN for short. So I say that, you'll know what I'm talking about because sometimes it's hard to say all those words.

So an APSN transaction is a transaction in which a bank assesses an overdraft fee based on insufficient funds at the time of settlement, even though the consumer had sufficient funds available when the consumer entered into the transaction. This risk is elevated when an institution utilizes an available balance method to assess overdraft fees as opposed to a ledger balance method.

In essence, we found it difficult for consumers to understand the balance in their account, especially when there were pending transactions and authorization holds.

The FDIC highlighted this issue in its June 2019 supervisory highlights publication. Because we found some institutions did not sufficiently disclose the manner in which their system assessed overdraft fees, such that a reasonable consumer might not understand when an overdraft fee could be imposed.

We encourage banks to review their current practices to see if this issue is present at their own institution.

The supervisory highlights publication lists some ways in which a financial institution can mitigate such risk, including providing clear and conspicuous disclosures related to the possible imposition of an overdraft fee, as well as if they use an available balance method ensuring that any transaction authorized against a positive available balance does not incur an overdraft fee.

So I just wanted to highlight both of

these publications in the FIL, just to make sure that everyone is aware those are out there. I'm happy to answer any questions or hear any comments.

I'm not sure if it is something you all were aware of our not, but we received a lot of questions here. Especially on the re-presentment FIL. So I just wanted to make sure that we addressed it.

MEMBER HAGLER: I had one comment.

MS. OXLEY: Yes.

MEMBER HAGLER: Nearly 30 years ago one of my first banking jobs was handling, in a community bank, cutbacks I think is what we called them, but the checks that came back. And it seemed like back then it was handling the actual item of course.

And you saw stamps, and multiple stamps across the item. And you knew the customers and the officers knew who they were dealing with. And if they came back more than a couple of times we took a hole punch just punched out the MICR number across the bottom so it couldn't possible come back.

I think you alluded to systems having either the ability or inability to kind of replicate that. That we used to do a human level at a high volume, no touch environment that we're in now.

Do they have systems that can identify these repeat items and know that they're repeat for the same reasons or is that the breakdown?

MS. OXLEY: It's my understanding that they can do that. At least some of the service providers we've talked to. They'll label it retry so you can see which transactions are being repeatedly done versus which one was the initial transaction that came through.

So it is my understanding, in some of the conversations that we've had, that at least some of them are doing that. And that's why we're making sure we're having those discussions and understanding where they are in that process. Because we think it's important that you can identify and distinguish between --

MEMBER HAGLER: Right.

MS. OXLEY: -- these types of NSF fees.

MEMBER HAGLER: Okay. Thanks.

MEMBER FITE: Does that retrial label happen at the IT vendor or does it happen at the merchant?

Does the merchant have to say it's a retry or where does that get missed at?

MS. OXLEY: It's my understanding that it's not at the merchant level.

MEMBER FITE: Okay.

MS. OXLEY: It's at the --

MEMBER FITE: Yes, I heard similar. I heard that some banks struggle with this and that maybe being coded wrong or it wasn't necessarily being reported. That we came back out with kind of a manual exercise to track down and look for similar dollar amounts maybe to try to find places it was re-presented.

MS. OXLEY: And that's a very, it's my understanding that's a very difficult time consuming process to do that manually, so we are trying to work with the processors to make this more automated.

MEMBER FITE: Great, thank you.

MEMBER HOLSTEIN: I just had a quick question under this. This is very recent. But as far as training for examiners, what to look at or anything, is there anything out there as far as work program or any kind of instructions or training to kind of, you know, get this on the radar of examiners because I feel confident we're not looking at this.

MS. OXLEY: We don't have a formal training that we've done. We've had calls about this issue and we've talked about the issue, but we don't have necessarily training materials that are put together that would be easy to share or anything like that at this point.

MEMBER HOLSTEIN: Okay. But the expectation is on the examiner level that this would be an item of review?

MS. OXLEY: If the risk is there. This is not something that we're mandating people look for, it's really just seeing if there is a, yes. If something bring, because we're risk focused, and so if the risk brings you there than yes, you should look at it. But it's not a mandate to look at this at all it seems.

MEMBER HOLSTEIN: Okay. And how is the rest being assessed, is it through complaints or, like, how do you, I don't know how you risk assess, whatever.

MS. OXLEY: A lot of it has been complaint driven --

MEMBER HOLSTEIN: Okay.

MS. OXLEY: -- to date.

MEMBER HOLSTEIN: Great, thank you.

MEMBER HALL: I will say on the re-presentment issue that our banks are, I think, becoming very aware, looking at what they can do, revising policies, reading the guidance. But I do think that they still are unsure if what they do is going to be enough.

What the look back period is. I mean, the way the letter reads I think it is dependent in some ways on can you get the data or can you not get the data.

If you can't get the data, the look back period I think is two years. If you can get the data, what is the look back period and how does that interface with state law, quite frankly, on what that look back period might be. I think there is still quite a bit of confusion out there on that topic.

MS. OXLEY: And we have had more and more bankers reach out to us for that exact reason, to have that discussion. Because you're right, if you self-identify and fully correct, we're not going to cite a violation when we come in at the next examination.

So it's very encouraging that bankers are reaching out and trying to really do whatever is needed to fully correct this issue before we get onsite. So we definitely noticed an uptick in those conversations.

MEMBER HALL: Yes. And I think they're just struggling with what fully correct is. So what does that mean in terms of remediation and what, you know.

MS. OXLEY: And you're right, there is a footnote in that FIL that came out that does give flexibility. It is very case-by-case basis. So I can see where there's questions.

So you're trying to offer flexibilities, but it really does depend on what the bank situation is and what steps they've taken to correct it and what data they've asked. It was impossible to set a bright line. Because we really do want to consider it, but that's why we're encouraging bankers to have those discussions with us.

MEMBER HALL: Absolutely. And I think that what our bankers are looking for is that if they're, like, if we try hard enough, does that get us a pass when examiners come in and decide that although we tried to do it all right, we got some part of it wrong or we didn't go back far enough. Like what is the, you know, what is the outcome going to be if ultimately an examiner decides that they didn't get it quite right.

MS. OXLEY: Yes.

MEMBER HALL: I think that's the concern.

MS. OXLEY: Thank you.

MS. EBERLEY: Okay, thanks, Tara.

MS. OXLEY: You're welcome.

MS. EBERLEY: So next we're going to be joined by Counsel, Michael Farrell from the Legal Division, and Jonathan Miller, Deputy Director of Policy and Research from the Division of Depositor and Consumer Protection.

Mike will discuss the final rule we issued in May relating to misrepresentations of insured status. And then Mike is also going to cover the FDIC portal for submitting complaints about suspected misrepresentations regarding deposit insurance.

And Jonathan will discuss the request for information that we issued relating to advertising and FDIC logos. So, Mike, thank you.

MR. FARRELL: Good afternoon, everyone. Sorry. As Doreen said I'm going to discuss our rule related to deposit insurance misrepresentations. If we can have the next slide.

So Section 18 of the Federal Deposit Insurance Act, which is generally the section that requires government's sign and advertising, it requires that member FDIC sign that we're all very familiar with.

It also includes a provision that

prohibits any person from misusing the FDIC's name or logo to imply that uninsured products are insured. And it prohibits anyone from knowingly misrepresenting the extent or manner of deposit insurance.

Until this year the FDIC had not issued any rule implementing this provision. We had taken certain enforcement actions but we hadn't done anything to promulgate a regulation.

That changed because recently, in the last few years the FDIC, if we could go to the next slide please. In recent years we observed an increasing number of misuse of the name or logo, or similar symbols and words, to misrepresent deposit insurance.

And because of that, last year we embarked on a rulemaking. The Board approved final rule in May of this year that became effective in July.

And that final rule is basically aimed at providing transparency in the procedures and the standards that the FDIC uses in identifying, investigating and evaluating potential misrepresentations about deposit insurance. And also, similar provides some clarity about the procedures we use, if and when it becomes necessary to take enforcement action to address those kind of misrepresentations.

And one note I will make in the final rule, just substantively it does provide certain examples, non-exclusively of the type of conduct that would violate the rule.

And one thing, as far as a misrepresentation, we did key off sort of normal deception law. And so the rule does make clear that material omissions in representations about deposit insurance do violate the rule.

One material omission that was specifically identified is when non-insured depository institutions advertise the provision of deposit insurance. If they do not identify the insured depository institution they'll be partnering with to provide that insurance, we do consider that a material misrepresentation by omission.

If we can have the next slide. These are some of the most common types of misrepresentations we have seen in the space. They are not the only ones, but they're sort of the big ticket items.

The first one is just the fraudulent website. This would be the spoof of a legitimate bank's website. Like you would see Bank of American .io. Which .io is the top level domain name for the British Indian Ocean territory. So when Bank of America has a website, that it's probably wrong.

The second one, and this is one we're seeing more and more of. And this is where non-bank financial service providers of some type are making either expressed statements or implications that either a non-bank is FDIC insured or that non-deposit products are FDIC insured.

And this happens in a couple of ways. A lot of times we see a non-bank financial service provider implying that either the failure of a non-bank may trigger FDIC insurance or that things other than a failure may trigger insurance we've seen.

For example, certain companies making statements like, that they are FDIC insured so this means you're covered if you lose money because they fail, or because of mismanagement or misconduct by the company. Obviously we all know that's not true.

The second thing we see is statements or implications that non-deposit insurance products are, or non-deposit products are insured. This will either be expressed statements.

Or sometimes we deal with financial companies that they may offer some insured products through partnerships with banks, and they may offer non-insured products. And a lot of times we see like blurring of the line as to what is insured and what isn't insured.

Obviously with our IDIs we have specific rules about segregating those things in the non-IDI space. We've seen some failure to do that.

And then the last thing we have is we have certain non-bank companies. And these tend to be dealers in alternative assets or investments making false statements that basically denigrate the security provided by FDIC insurance. Making various statements that FDIC insurance is not really the reliable safeguarding that it is and so people should pull their money out of banks and invest in, well, what other product it is that they're selling.

Can we go to the next slide please? And so, the one, the last thing that I believe was promised is, as part of the numerous representation rule we did establish a new consumer portal on our, the FDIC support and information website for the specific purpose of allowing consumers to report to us potential deposit insurance representations.

This portal does allow consumers the opportunity they can submit complaints with contact information, if they would like follow-up from us and responses. We did also include an option for them to do anonymous submissions if they have whistleblower concerns. Don't want to be identified, et cetera.

That portal launched concurrent with the rule becoming final on July 5th. Since that time we have had more than 325 submissions to the portal. Which is more than I think we were expecting. But it's definitely been active.

We have sent out to date six publicly, six cease and desist letters to various entities that we made public on our website. And we are continuing to evaluate new submissions as they come in.

And if we can have the next slide. And the next slide here is really just some additional resources regarding deposit insurance misrepresentations.

There is obviously our rulemaking. We did publish a fact sheet. We published FIL. And we also always like to publicize our BankFind website, which is one of the key places people can go to determine where their things are. Whether they're dealing with an actually insured bank or not.

I don't know if, John, if you want to go or if I should field questions now?

MR. MILLER: It might make sense for me to talk and then, because it really flows very much from what Mike was talking about.

So my name is Jonathan Miller. I'm a Deputy Director in our Division of Deposit and Consumer Protection for Policy and Research and I'm here to talk about our request for information on our official sign and advertising regulations. And it really flows directly from the efforts Mike described in our work to avoid and prevent misrepresentation.

So in February of 2020 we, the FDIC, issued, or published, a request for information, or an RFI, on modernization of our signage and advertising rules.

We republished that in April of 2021. We got diverted a little bit in March of 2020. So we republished the RFI. We reissued it. And in order really to gather feedback regarding how we might inform our rules to keep pace with how today's banks offer deposit products and services and how consumers connect with banks, including through evolving channels, such as online and mobile apps.

So in response to the two RFIs, we received about 20 comments from trade associations, insured depositories, consumer groups and others. We reached out and conducted nine stakeholder meetings with banks, technology service providers, consumer groups and others to obtain more information through more informal discussions.

Now commenters universally recognize the need for updating the sign and advertising of requirements in response to the changing industry practices and the increasingly significant role played by digital and mobile banking. And I will just, by way of advertising, say we are going to be releasing our household survey on the un, and under bank tomorrow, which will, I think has some interesting information regarding how consumers interact with banks. So we'll look forward to you seeing that.

Commentators also indicated that consumers assume products offered through banks are insured. And these commentators emphasized the rule of third-parties and offering uninsured products and the importance of enabling consumers to identify uninsured products.

And this is really an important point

that I want to underscore. We want to help to ensure that consumers are not confused about what products are insured and what products are not insured.

We see this customer confusion as a potentially serious risk. And as you can imagine, this is a problem. The solution to which is becoming more challenging as we see both a proliferation of new products and new ways of reaching the public.

We're using this feedback as we consider revising and clarifying our official sign and advertising rules related to FDIC insurance and deposition insurance. And to account for these changes in banks interactions with consumers.

So we take this, I will simply close by saying, we take this challenge seriously and we look forward to more public discussion and any thoughts you may have here as well. Thank you.

MEMBER AFDAHL: Michael, I'm curious,

do you have any sense for breakdown on the complaints or tips you've received, how many of those are crypto-related products?

This seems to be a really common area where they want to pretend that people can't lose any money, which obviously people have found out very painfully that they can.

MR. FARRELL: We certainly have had complaints about crypto. I don't have a sense of a percentage or a number of breakdown. It certainly is something we have seen complaints about. In addition to other areas obviously.

MEMBER C. COOPER: Michael, do you have an idea, or maybe not an idea, but if you had a very valid complaint after your evaluation, how long do you think is your turnaround time?

I know you have process you have to go through, but how quick could you react in a --

MR. FARRELL: Well --

MEMBER C. COOPER: -- certain case?

MR. FARRELL: -- it does depend. We

are still working on our process. As most things are, we are risk-focused here.

So I think it really would depend on how much risk we saw immediately for consumers on how quickly we need to react to that. At this point we don't have a set deadline for start to finish to investigate and make a decision and bring any kind of action, but.

MEMBER C. COOPER: We've had a lot of experience with entities claiming that they were banks, which really creates a problem. And then just compounds it.

And, Jonathan, your comment about, I mean, what you all are looking into now is really a big situation. And I understand the sensitivity of it.

MEMBER HAGLER: Yes, I just wanted to applaud your work in this area. Like Charles said, in my time as commissioner we've probably run a dozen or more banks that were fake out of Georgia. But all we're doing is bouncing them between Tennessee and Florida and Georgia. It's just running up and down.

(Laughter.)

MEMBER HAGLER: I did tell you hi. So yes, we're bouncing them around. So yes, it would be helpful if a federal entity took a more aggressive or, you know, put a little more light on it.

I will say that the other thing is, when I became commissioner I asked them why we still had a fax machine in our office. And they said it was our best source of fake banks because we would get the fake solicitations through it.

MR. FARRELL: Yes.

MEMBER HAGLER: So if you can find one down in your basement, you may want to fire that one back up.

(Laughter.)

MEMBER HAGLER: And to Jonathan's comments as a group of regulators, that has to flip both in the non-bank and the bank.

Definitely appreciate your address in something I've been worried about for a long time, which is these entities stating that they have a relationship with the bank and implying that you, as a customer, also have a relationship with that bank. And would love to see that be a lot more clear to maybe even the entity, but to the customers as well. So great work --

MR. FARRELL: It's an issue we take very seriously.

MEMBER HOLSTEIN: I just have kind of a more observation question. Probably many are familiar with companies that are peddling themselves to banks to get behind their online banking credentials to offer crypto purchases.

And I just, you know, I have warned, you know, we've had a couple requests to do that. Just about the reputational risks mostly.

But would this come into play in anyway with that kind of situation?

MR. MILLER: Well, I would say we are

particularly sensitive to misrepresentations in this regard. And you may have noticed, I don't know, maybe a month ago or so we took some public actions with regards to some misrepresentations with cease and desist orders.

But we're very cognizant of the fact that non-bank parties like the idea of using the bank as a way to attract the consumer because of the value that the banks brand, and the FDIC's brand, brings to the table. And I think we are conscious of reputational concerns. Both for the FDIC and the institutions.

MEMBER HOLSTEIN: -- that say, I don’t think there’s enough disclosures that say you know, you don’t do this--

MR. MILLER: And that's --

MR. FARRELL: And that is something we do pay attention to. And we kind of try to use the normal, you know, in deception cases there is usually this, what's the overall impression you're creating. We are very sensitive to blurring the line because we do find a lot of non-bank financial entities --

MR. MILLER: Right.

MR. FARRELL: -- may have an insured component that they partner with the bank for and a non-insured component in delineating that line of when the consumer's funds are insured versus when they're not is something you pay a lot of attention to in evaluating these.

MEMBER C. COOPER: So just one more thing. I really think this is an area that we probably state some, FDIC can share the concern about, and possibly somewhere we can do some collaboration on this. This can really get, generally speaking at the bottom of all this is a bank. And sometimes the banks, in my opinion, really don't understand just who their partners are. Or what their partners are doing.

ACTING CHAIRMAN GRUENBERG: If I can underscore that, Charles. I think the issues we've had with banks that form partnerships with third-parties, it really is a two-way street. It's not just that the third-party may engage in misrepresentations because they think it's in the business interest to do that, there is an obligation on the part of the bank to conduct appropriate due diligence to understand the relationship and representations and misrepresentations that might be made by the third-party playing off on that relationship.

We issued a financial institution letter in that regard. And realized something that banks need to pay attention to, and it's a risk to them, as I think was indicated.

MS. EBERLEY: Okay. Well thank you very much, Mike and Jonathan. We'll move on. Next, Mike Spencer, Associate Director in the Financial Risk Management Branch in Our Division of Insurance and Research, will discuss the amended restoration plan and deposit insurance assessments.

MR. SPENCER: Ashley is going to join

us too.

MS. EBERLEY: Oh, okay.

MR. SPENCER: She's going to answer all the hard questions.

MS. EBERLEY: Perfect. That's a good strategy.

ACTING CHAIRMAN GRUENBERG: A sign of a smart executive --

MS. EBERLEY: I was going to say, that's a good strategy.

MR. SPENCER: Good afternoon. It's a pleasure to be here with you. And thank you for having us.

I'm Michael Spencer, the Associate Director of the Financial Risk Management Branch for the Division of Insurance and Research. And joining me is Ashley Mihalik, our Chief of our Bank Regulatory Policy Section.

This afternoon we're going to speak to you about the statutory mandated restoration plan. Why we amended it last June and the related assessment rate increase that was just approved by the FDIC Board.

Last week, on Tuesday, October 18th, Ashley and I presented to the Board a final rule to increase initial deposit insurance assessment rate schedules by two basis points. And the increase is meant to achieve two policy objectives.

Most immediately, to restore the reserve ratio to its statutory minimum of 1.35 percent by the statutory deadline of September 30th, 2028.

Additionally, the rule supports growth in the deposition insurance fund, or DIF, I'll call it DIF from here on out, in progressing toward the long-term fund management goal of a two percent designated reserve ratio.

Importantly, not only will this action by the Board accelerate the timeline to meet these objectives, it reduces the likelihood that the FDIC would need to consider a procyclical assessment rate increase. Especially when banking in economic conditions may be less favorable.

Potentially at some point in the future given the uncertainties and downside risks the industry faces. And it should also increase the likelihood that the DIF will remain positive through any potential future period of significant losses due to bank failures.

In the next few minutes I'll cover our underlying analysis on the scenario projections produced by the Staff supporting the Board's decision last week and the expected effects on the industry. But first I think it makes sense to cover a little bit of background and what led us up to this point in the restoration plan.

I'm not sure, this is a relatively new Committee, so I'm not sure if we've ever spoken to you about the restoration plan, but it was first established in the height of the pandemic. On June 30th, 2020, the reserve ratio fell below the statutory minimum of 1.35 percent. And it stood at 1.30 percent.

This was due solely to extraordinary growth in insured deposits in the first half of 2020. In fact, we experienced about three years of insured deposit growth in a matter of two quarters. So about three years of what we would generally expect.

And as a reminder, we started the year before the pandemic with a reserve ratio at a high of 1.41 percent. So we lost a lot just, it was really in a matter of about 16 weeks that that occurred.

On September 15th, 2020, the Board adopted a restoration plan to restore the ratio to the minimum within the statutory eight year period. That statutory eight year period ends on September 30th, 2028.

At the time, given the significant uncertainty that we were faced with, the Board believed that it was premature to modify assessment rates. So the plan maintained the assessment rate schedule in place and required staff, us actually, Ashley and I, to update analysis and projects for the DIF balance and reserve ratio and report back to them at least semi-annually.

Given the broad pandemic support, government support and it's duration, including two more subsequent direct injections of physical stimulus, the industry continued to experience strong insured deposit growth through the end of 2020, well into 2021. And in the first half of 2022 balances remained significantly elevated.

As of the last semi-annual update we provided to the Board in June 2022, almost two years after establishing the plan insured deposit growth, continued to outpace growth in the DIF. And our projections of the reserve ratio under different scenarios indicated that it was at risk of not reaching 1.35 percent by September 30th, 2028.

In the eight quarters during which the restoration plan has been in place, the reserve ratio actually regressed over that period to measure 1.26 percent as of June 30th, 2022. And just to be clear, the reserve ratio is our DIF balance relative to total insured deposits in the system. Right now our DIF balance is about $124.5 billion. And about $9.9 trillion in insured deposits in the system.

Because of this the Board agreed to amend the restoration plan to incorporate a two basis point increase in assessment rate schedules. And concurrently approved a notice of proposed rulemaking to implement the increase.

That proposal that we issued in June 2022, had a 60-day comment period. We received a 171 comment letters from the public. And commenters mainly covered our analysis and projections. And a key focus was the assumptions in our projections used for insured deposit growth and the investment portfolio.

I'll just say a few words about this before going into the analysis and the scenarios. And first off, start by discussing insured deposit growth, which after all is a primary reason the reserve ratio has declined so significantly over the last two years.

It's true that as of the second quarter of 2022 that insured deposit growth has shown some signs of possibly normalizing. Aggregate insured deposit balances continue to remain significantly elevated relative to pre-pandemic levels.

To be clear, insured deposits measure about a trillion dollars more than we would have otherwise reasonably expected. If it hadn't been for the pandemic and the stimulus.

Insured deposits did decline in the second quarter but that's not unusual. Deposits declined in the second quarter for six out of the last nine years.

One of the years where the second

quarter did not experience a decline in insured deposits was the second quarter of 2020 when we received, when there was significant stimulus injected into the system due to the pandemic.

Additionally, year-over-year insured deposit growth, so insured deposit growth as of the end of June 30th, 2022, still was, remained strong at about 4.3 percent. This annual growth rate is higher than either of the insured deposit growth rates in the scenario analysis that underlies our final rule. I'll speak about that shortly.

While it's possible that insured deposit growth may slow in the future, it's far from certain. Insured deposit growth is very difficult to predict because it's affected by so many different factors.

Regarding the investment portfolio, commenters asserted that its contribution would be stronger than what we assumed in our projections, especially given the rising rate environment. However, growth in the DIF has been limited by a prolonged period of low investment returns. And recently by unrealized losses. Given the rapidly rising rate environment.

And while we agree, we do agree that a higher interest rate environment will eventually benefit the DIF, at some point the timing is highly uncertain. And since establishment of the plan, net investment portfolio contributions, so that's the yield plus the gains, or minus losses, have been flat or negative. So that's been since the establishment of our restoration plan.

I should add that our longer term projection to reach the two percent designated reserve ratio assumes a favorable level of positive net investment contributions after the reserve ratio reaches 1.35 percent.

In support of finalizing the rule we did develop the two scenarios that assume different levels of insured deposit growth and average assessment rates to project when the ratio would reach, first, the statutory minimum, and secondly, our long-term goal of two percent.

Those two scenarios assume annual insured deposit growth of four percent and three and a half percent. And average assessment rates of 3.5 basis points and four basis points respectively.

Under these scenarios, without any increase to assessment rates, the statutory minimum would not be reached until the second quarter of 2034. Or the fourth quarter of 2026. Either well beyond or very late within the eight year statutory period.

Each scenario is reasonable. It's based on current and historical data. And to reiterate, the insured deposit growth rate assumed in each of these scenarios is below the current annual growth rate of 4.3 percent for the year ending June 30th, 2022.

Even under the more favorable outcome,

the more favorable scenario this timing, which is the, gets us there the fourth quarter of 2026, this timing would provide little flexibility to prevent a larger procyclical assessment rate increase in the event there is an industry downturn between now and then.

I think what I've been hearing today too, this is true, that future economic and banking conditions could be challenged by high inflation, rising interest rates, slowing economic growth. I'm not sure I've heard anything about geopolitical uncertainly yet, but that's just to name a few, a few things that we think adds to sort of the uncertainty.

And given this timing and these uncertainties, when we applied a two basis point increase it demonstrated that this modest increase in assessment rates would accelerate the timeline and get us there in about two years. By or before the end of 2024.

And we could possibly the achieve the

two percent goal by 2031 instead of 2042. And so a powerful acceleration just by raising a slight two basis points.

Regarding the estimated effects of the rule on the industry, our analysis indicates that an annual increase of two basis points and assessment rates, rate schedules, would reduce tier one capital by an estimated .1 percent. And would reduce annual industry income by an average of 1.2 percent. For small banks the impact is less, averaging about one percent of their income.

The industry, as a whole continues to report favorable credit quality earnings in capital levels, and is well positioned to absorb a modest increase in assessment rate schedules of two basis points.

The finally rule really attempted to, and we believe successfully so, balance several considerations and policy goals. Including the goal of reaching the statutory minimum ratio sooner rather than later.

It should help us strengthen the fund to reduce the risk that we would need to consider a potentially procyclical assessment rate increase in the event of a future downturn. Or industry stress should that occur before the statutory deadline.

That would also be at a time when the industry would least be able to afford a raise in assessment rates as well. And as I've stated, it also improves the timeline for achieving a two percent designated reserve ratio and should strengthen the fun to withstand future potential banking crisis.

So when does all of this take affect? The final rule will be affecting in the first quarterly assessment period of 2023. So that's January 1st to March 31st. And the first payment would be on June 30th, which we assess in arrears. So there should be enough time to plan for this change in the assessment rates.

Thank you very much. If there is any questions, I'm happy to answer those.

MEMBER HAGLER: I apologize, I'm not a scholar of the FDIC's insurance calculations and all the machinations that go into that. But the 1.35 and the two percent and the 2.5 percent, you know, are those, I was going to make a joke about, did you use CECL methodology to get there, but --

(Laughter.)

MEMBER HAGLER: -- are those derived based on previous events, such as the great recession, and if so, do you take into account the changes in law and guidance and just economic or capitalization levels, better job control and concentrations, as part of that calculation?

I mean, do you give yourself credit for making the world a better place after that to --

MR. SPENCER: I --

MEMBER HAGLER: -- it would seem like

you wouldn't need the same amount if you based it on previous events, if we improved the situation to not recreate that I guess is what I'm trying to say.

MR. SPENCER: So I'll take that in maybe two parts. First I'll focus on the 1.35 percent. That statutorily mandated minimum reserve ratio that was promulgated by Dodd-Frank. Before that it was 1.15.

MS. MIHALIK: 1.25.

MR. SPENCER: 1.25. And so that statutory minimum was raised.

Also in Dodd-Frank we were given the authority to designate a reserve ratio. And we did that. We designated two percent. And that was based on historic two banking crisis in the past and the determination, I'll short circuit it a little bit, but it was at two percent we would have, the DIF would have stayed positive through those two banking crisis.

Once we do get to two percent, in this

rule will be in effect until we reach two percent, we will, progressively lower rates will go into place. So we have existing rate schedules for when the reserve ratio reaches two percent.

ACTING CHAIRMAN GRUENBERG: It's probably worth pointing out that during the financial crisis in 2008, because the DIF was depleted so quickly, we had to impose a five basis point assessment in the midst of the crisis. Which is really the, that's the worst case scenario. That's really what we're aiming to avoid.

And it's always a tricky call. And there is no sure thing here. You got to sort of make your, the best judgment on the information available.

You know, I think view was that the industry is in pretty good shape at this point. The economy. And at least at this point is in reasonable shape.

A two basis point assessment increase

has about a little more than one percent impact on industry income. Which from a credit availability and lending standpoint should be inconsequential.

But it gives us a high level of assurance of not having to impose a really, a really severe countercyclical assessment later in the cycle here. So it seemed like the prudent thing to do.

And once we reach the 1.35 minimum, the eight year clock restarts. So that by reaching 1.35 earlier in the cycle here we'll extend the clock well beyond the current economic cycle. And really should take us out of a circumstance in which we might have to impose a significantly procyclical assessment.

So, you know, there is no sure thing, it's a judgment call. But unbalanced, frankly, it seemed like the prudent thing to do.

MS. EBERLEY: Okay. Well thank you, Mike, thank you, Ashley. Appreciate the information.

And then for our last agenda item, Betty Rudolph, the Director of the FDIC's Office of Minority and Community Development Banking, will provide an update on the mission driven bank fund and the minority depository institution listening sessions that she's been participating in.

MS. RUDOLPH: Thanks, Doreen. Good afternoon, everyone. I'll just provide a brief update today on our office.

I believe we're the most, the newest office of the FDIC. The Office of Minority and Community Development Banking was formed last November. And our research has shown that FDIC insured MDIs and community development financial institutions play a very important role in our financial system.

So of the 14 Commissioners on this Committee, I think eight of you have MDIs headquartered in your states. A total of 33 banks. That constitutes about a third of the MDIs that we supervisor. And five of you supervise 14 FDIC supervised CDFI Banks, or about 12 percent of the 120 CDFIs that we supervise.

So our role is to engage directly with these institutions to facilitate strategies to help them build capacity and scale through partnerships and collaboration. And we work very closely with our regional offices as well for our traditional programs of technical assistance, outreach and training and education.

So today I'm going to update you on a couple of our initiatives. We published a FIL this past May that I believe you had in your packet called MDI designation procedures. And it simply outlined the procedure that we take for designating de novo institutions or existing institutions as minority depository institutions as the definitions. What we look at in the community that the institutions serve.

And I think it's been really helpful

because there has been a lot more interest in creating MDIs over the past couple of years. And this year to date we have one new FDIC supervised de novo that's opened its doors. Another three existing institutions that designated themselves as MDIs. And we approved a conditional application for deposit insurance for an MDI that is now raising capital.

We have an MDI subcommittee that advises us. And similar to this Committee, we're meeting tomorrow. And it's comprised of nine executives from around the countries representing all types of MDIs.

On the mission driven bank fund, this was unique public-private partnership where we sort of championed the need for the fund and helped the design the framework, structure and concept of operations for the fund.

Last September we announced a $120 million commitment for what will be a private equity fund with Microsoft and Truist serving as the anchor investors. We sort of turned the car keys over to them at that point.

And they issued an RFP to hire a fund manager last December, with applications due in February. And they are getting ready to announce the fund manager, we understand, within the next four to six weeks. And that's kind of where the mission driven bank fund stands.

Another initiative we've been engaged in is to conduct listen sessions with all 280 FDIC insured. MDIs and CDFIs were invited to provide feedback on sort of the programs of the FDIC, the OCC and the Federal Reserve for mission driven banks.

And we haven't completely analyzed the results, but there are a few takeaways that we had, which are that some MDIs are still seeking capital and looking for the regulators to provide facilitated sessions for them to meet with large banks that are interested in partnering with them.

There is also interest in the regulators being transparent about regulatory expectations for new capital coming into the industry. Like the emergency capital investment fund with the Department of Treasury, which purchased $8.3 billion in preferred stock and sub-debt in these institutions this year.

And so, you know, kind of building on that, the FDIC has actually put together a technical assistance program to, I think we're going to be conducting a webinar for all FDIC insured MDIs and CDFIs that received ECIP funding, or other large bank funding, to really talk through our regulatory expectations for that and how we will look at growth.

And we did a pilot of that a couple of weeks ago with our bankers. We're going to kind of tweak our presentation based on that, and should be rolling it out in the near future.

And then finally we are also getting ready to conduct some, just-in-time training, for examiners in charge of MDIs. And this is to apply the unique, to apply exam standards relative to the unique business models of MDIs.

And I think last year when I met with you I explained that we had, the Board had adopted a new statement of policy, which focused on how we examined these institutions relative to UFIRs and applying unique, applying the standards relative to unique business models. So we will be doing some training on that for our examiners. And then we will be working through the CSBS to develop similar training for state examiners.

And with that, I think that concludes my presentation. And I'm happy to answer any questions you might have.

MEMBER AFDAHL: Betty, I'm curious how many MDIs do you have located on Native American reservations?

MS. RUDOLPH: Yes, I don't know how many are actually located on reservations. I know there are not, there are no FDIC insured in

South Dakota.

But we have a growing number of Native American MDIs. There are 19 currently, nationwide. And I think we've added two or three in the last couple of years.

And then we have a Native American bank in Wisconsin that recently expanded to another tribe. So we have one located in, many in Oklahoma are on reservations. Yes.

MEMBER AFDAHL: Thanks.

MEMBER HALL: One in Montana.

MS. RUDOLPH: One in Montana? Okay. And I met Lisa actually at Turtle Mountain State Bank up in Northern North Dakota near the Canadian border.

MEMBER HAGLER: Betty, is there a list of the MDIs? Because it didn't occur to me until I was reading through the information you had provided in your presentation that, I just assumed that all of my institutions were minority owned were magically MDIs, and I didn't occur to me that there was an actual application process to go through.

MS. RUDOLPH: Yes. That's a great question. We do publish a list on our website. And we'll make sure you get a copy of that.

Yes, there is a process. So you can qualify based on ownership. Or if a majority of the Board of Directors is minority and serving a minority community. And that's the designation we're seeing some growth in now since the interest in MDIs.

MEMBER HAGLER: Great, thank you.

MS. RUDOLPH: Yes.

MS. EBERLEY: Okay. I don't know if you just said, but there is a list on our web page. Yes.

Okay. All right. Well, thank you, Betty.

So as we wrap up, I really want to thank everybody for their conversation today and the good dialogue. I want to thank the presenters. And I will turn things over to Acting Chairman Gruenberg for some brief closing remarks.

ACTING CHAIRMAN GRUENBERG: Thank you, Doreen. Boy, we are on time. That's pretty good.

(Laughter.)

ACTING CHAIRMAN GRUENBERG: I give us, if nothing else, you know, we could --

(Laughter.)

ACTING CHAIRMAN GRUENBERG: And this has actually been a nice conversation today.

MS. EBERLEY: Yes.

ACTING CHAIRMAN GRUENBERG: Thank you. Wonderful, really, to see you all.

I'd like to acknowledge two members of our Committee who have stepped down recently. Ed Leary of course from Utah who retired earlier this year. And Charles Vice from Kentucky who I think has gone on to bigger and better things, although I'm not sure exactly what. But they were both really outstanding members and very helpful to this Committee.

I can't overstate the value we place in our engagement with you all. It really is a partnership from my standpoint. It's really at the core of the FDIC's ability to carry out our mission.

So to the extent meetings like this deepen our understanding of what each of us are doing and deepen our working relationship it's more than worthwhile. And so much better to do it in person.

So thank you all. And I guess we'll also being go to the service later today. But thank you all. Wonderful to see you. Thanks a lot.

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