FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON COMMUNITY BANKING

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MEETING

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TUESDAY,
MAY 3, 2022

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The Advisory Committee convened at 1:00 p.m. EDT via Video-Teleconference, Martin Gruenberg, Acting FDIC Chairman, presiding.

PRESENT:

MIKE BOCK, CEO, Dairy State Bank
TROY CAMPBELL, President & CEO, Altoona First Savings Bank
HAROLD HORVAT, Chairman & CEO, Centreville Bank
ROBERT JAMES II, Executive Vice President, Carver State Bank
BETSY JOHNSON, President & CEO, Solutions Bank
BRUCE LOWRY, President & CEO, Ireland Bank
TREY MAUST, Executive Chairman, Lewis & Clark Bank
NEIL McCURRY, Sarasota and Manatee County Market President, Seacoast National Bank
TERI MESSERSCHMITT, President & CEO, South Ottumwa Savings Bank
DOMINIK MJARTAN, President & CEO, OPTUS Bank
GILBERT NARVAEZ, JR., President & CEO, Falcon International Bank
MARGARET OLDNER, CEO & Director, Stone Bank
ARLEN OSTERBUHR, Chairman & CEO, Minden Exchange Bank & Trust
SHANE PILARSKI, President & CEO, Alliance Bank
KIM REIGELSBERGER, President, Preferred Bank
ANDREW WEST, President, Eagle Bank

ALSO PRESENT:

ROHIT CHOPRA, Director, Consumer Financial Protection Bureau
MICHAEL HSU, Acting Comptroller, Office of the Comptroller of the Currency

FDIC STAFF PRESENT:

MARTIN J. GRUENBERG, Acting Chairman
LISA ARQUETTE, Associate Director, Anti-Money Laundering and Cyber Fraud, Division of Risk Management Supervision
BOBBY BEAN, Deputy Director, Capital Markets & Accounting, Division of Risk Management Supervision
SHANNON BEATTIE, Chief Accountant, Division of Risk Management Supervision
DOREEN EBERLEY, Director, Division of Risk Management Supervision
KRISTIE ELMQUIST, Regional Director, Dallas Region
G. CHRIS FINNEGAN, Senior Deputy Director, Compliance and CRA Examinations, Division of Depositor and Consumer Protection
MARTIN HENNING, Deputy Director, Operational Risk, Division of Risk Management Supervision
JESSICA KAEMINGK, Acting Regional Director, New York Region
JAMES LaPIERRE, Regional Director, Kansas City Region
YAN LEE, Economist, Division of Insurance and Research
RAE-ANN MILLER, Senior Deputy Director, Supervisory Examinations, Division of Risk Management Supervision
SHAYNA OLESIUK, Associate Director, National and Regional Risk Analysis, Division of Insurance and Research
TARA OXLEY, Associate Director, Compliance and CRA Examinations, Division of Depositor and Consumer Protection
PHILIP SHIVELY, Deputy Director, Research and Regulatory Analysis, Division of Insurance and Research

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

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

1:07 p.m.

CHAIRMAN GRUENBERG: Welcome to all the members of our FDIC Advisory Committee on Community Banking. Welcome to our spring meeting of this committee. It's a pleasure to have you all.

This meeting is being done virtually. We would hope going forward, to have the opportunity to actually hold these meetings in person. But, we will do our best today in this virtual format.

If you look at the agenda for today's meeting, it's really divided into two parts. The first part is we get to hear from you; and, the second part is, you get to hear from us.

And, that's a pretty fair exchange, and kind of sums up what this Advisory Committee is about.

I will say we really look forward to your presentations as an opportunity to hear directly from you, what you're seeing on the ground for your institutions, and in your local markets.

It seems to us we're dealing with a remarkably uncertain outlook for the economy, and the financial system right now.

We clearly have a shift in the conduct of monetary policy in the United States. We're going to be looking at a rising interest rate environment, for the remainder of this year.

And, that may have consequences for the economy and the banking system.

And, in addition, the tragic events in Ukraine, and the sanctions on Russia, have impacted energy and commodity markets, and supply chains, which adds further uncertainty to the economic outlook.

So, hearing from you all, what you're experiencing at the moment, is something we really welcome and value.

And, we also look forward to the

opportunity to share with you our thoughts, and some of the key priorities that we've been working on.

We have a number of new members who are joining the committee for the first time, at today's meeting.

And, if I may, I'd like to introduce them and welcome them to the committee. Troy Campbell, the President and Chief Executive Officer of Altoona First Savings Bank, in Altoona, Pennsylvania.

Robert James the II, Executive Vice President of Carver State Bank in Savannah, Georgia.

And, Troy Maust, Executive Chairman of Lewis & Clark Bank in Oregon City, Oregon.

Dominik Mjartan, the President and Chief Executive Officer of Optus Bank, in Columbia, South Carolina.

Arlen Osterbuhr, Chairman and CEO of Minden Exchange Bank & Trust Company, in Minden, Nebraska.

Shane Pilarski, President and CEO of Alliance Bank, in Francesville, Indiana.

And, Kim Reigelsberger, President of Preferred Bank in Rothville, Missouri.

On behalf of everyone at the FDIC, I'd like to thank you for agreeing to serve on this committee. We very much look forward to your participation, and getting to know you.

Before I turn over our discussion to Doreen Eberley, who is going to serve as the moderator for today's meeting, we are joined today by Rohit Chopra, the Director of the Consumer Financial Protection Bureau, and a member of the Board of the FDIC.

And, also if I may say, a strong supporter of community banks in the United States.

And, if I could ask Rohit to say a few words before we turn the program over, over to Doreen.

DIRECTOR CHOPRA: Well, thank you, Mr. Chairman, for allowing me to crash this meeting.

You're so right that we are navigating some unique economic times, both geopolitically and within our broader interest rate environment.

In terms of consumer credit, we're starting to see some changes. We, of course, are expecting that mortgage origination will fall, mostly driven by reductions in refinancing.

We're starting to see outstanding credit card balances go up, and we're particularly attuned to what we're seeing in the vehicle market, where the Asian chip supply shortage is really reverberating in terms of both new and used car sales. And, we're starting to see that in the auto loan market.

Of course, I know so many of you are thinking about how to use technology effectively, and we are also very attuned to how we can preserve relationship banking, while also leveraging technology.

So, I don't want to take too much time. I want to thank Doreen, and all the staff, for leading us today, and I'm definitely looking forward to the discussion.

Thanks again.

CHAIRMAN GRUENBERG: Thank you, Rohit, and thank you for being here today.

And, now, if I may, I'd like to turn the program over to Doreen Eberley, the Director of our Division of Risk Management Supervision, who will serve as the moderator for today's meeting.

Doreen?

MS. EBERLEY: Thank you, Chairman Gruenberg, and thank you Director Chopra, both of you for giving some opening remarks.

We're going to start this afternoon by turning to the committee members for a discussion about trends and issues, relating to the local banking environment and conditions.

And, then after we've heard from the committee members, we've also asked FDIC staff members to discuss their observations.

Shayna Olesiuk, Associate Director National and Regional Risk Analysis, from our Division of Insurance and Research, is going to cover some observations about the national economy and banking trends.

And, we also have today Kristie Elmquist, the FDIC's Regional Director from the Dallas Region, Jessica Kaemingk, the FDIC's Acting Regional Director from the New York Region, and Jim LaPierre, the FDIC's Regional Director for the Kansas City Region, with us.

And, they're going to discuss observations of local FDIC staff.

So, I'd like to kick off our committee member discussion with Betsy Johnson, President and CEO of Solutions Bank, who will be followed by the other committee members.

Betsy?

MEMBER JOHNSON: Good afternoon. Thank you, Director Gruenberg, for laying out our meeting today because it's a lot of gloom and doom, too, unfortunately.

I want to say it's an exciting time, but we haven't had these changes in quite some time.

What's happening in Ukraine is very sad, and sometimes to be from the State of Illinois, I feel like I've got gloom and doom here, but not nearly in the magnitude of that.

So, again, good afternoon, and it's a pleasure for me to start the meeting today. The subject matter is I said, very, matters to all of us. Maybe not in the same magnitude or mattering to all, but very extremely of importance.

A quick recall. I am Betsy Johnson, President and CEO of Solutions Bank, and from a $440 million dollar community bank with seven locations, in four counties in Northern Illinois.

At the end of this past January,

completed a merger of our second acquisition within two years.

And, I've got to tell you, I have the utmost greatest respect for all the people that work on mergers and acquisitions, because if you haven't been through one, it's a lot of work. All worth it, but a lot of work.

We are now looking forward to more focus, and get back to business, hopefully as normal. And, then of course, there's always something happening in banking, like changing interest rates.

We're also looking forward to an upcoming exam in a few months, with the FDIC, for compliance and safety and soundness.

So, did I say we're excited about that? We're excited about that.

Of course, I always like to look at it and tell our staff, that it's an opportunity to show our efforts of our hard work, and what we put into our business, and what we provide to our customers, our communities, and employees.

So, yes, we're going to look very much forward to it.

Today in Northern Illinois, it's like many other days have been in the last couple of months. It's rainy, it's cool. April and May have been 45 degrees.

Even though our state covers 390 miles north and south, the temps vary. And, today I looked up, and even Southern Illinois is only up to the 60s.

So, what that has done for us is, we're a big agricultural state. And, only up to a few days ago, approximately five percent of our crops were planted. This time last year, it was 90 percent.

Input prices continue to increase. Seed, fertilizer, fuel, as we well know from the economic outlay, as well as a demand for premium on rent due to anticipated high corn, soybean prices.

And, in some cases, input costs certain items even tripled.

As I've said, Illinois accounts for approximately five percent of U.S. agricultural sales. It's 80 percent crops, and 20 percent livestock.

And, Ag is also the number one industry in Illinois in terms of economic impact, contributing to just over $8 million to the state's economy. And, employs over 1.5 million in the fiber and food industry.

Now, noting these facts, it's no surprise that land values continue to increase, and it's also attributed to investors, and investing in farmland in Illinois, which makes competitive for our buyers who are typically, are generational farmers.

Last known sale in Northern Illinois was as much as $14,000 an acre, and it's for land that will most likely continue to be in Ag production, and I note, not for commercial development.

The Ag industry in Illinois is, as in many other years, will most likely prove to be very interesting this year. Challenging for our farmers.

But, I have to say, they continue to prove that they can be smart and efficient operators.

So, it will be interesting and we'll have to wait to see.

Also, known in Illinois as of March unemployment, which is typically a little bit higher in Illinois than most states.

The rate was at 4.7, so that's down from last year at 6.7. 299,000 unemployment and 90,000 unemployment claims. Last year like I said, 6.7. We had over 400,000 unemployed, and almost 300,000 in claims.

On the housing market, despite home construction costs, supply chain challenges, we still see the continued building of 1-to-4 family homes, condo, apartment complexes, particularly in the suburbs of Chicago.

In conversations I've had most recently with other Illinois bankers, even due to the shortage of supplies, home sales, homes that are for sale, it didn't appear that they think mortgage lending would come to a halt.

It will slow down even with an increase in rates. But, we anticipate it will slow down, but they can still continue to build besides all the obstacles.

PPP loans, all forgiven in our particular bank. Balances have decreased down to $800,000. We started only at $4.5 million, but all forgiven, and seems to be going well.

Loan demand has increased. Opportunities are rising more with society going back to in-person structure.

And, of course, lines of credits are increasing, due to product increases as well.

Deposit balances post-COVID have

still hung in there and decreased only slightly. Most activity happening with that, are moving of funds before maturity, and deposits to non-maturing, as customers are waiting for investment opportunities.

So, still with historical deposit, high deposit balances, leverage capital at ratios remain, you know, compliant, but still a little stressed.

But, as we come up in the next few months and next year, we see this may change. Higher cost of living, daily expenses continue to rise and consumers may go back to being forced to dig into our savings to make ends meet.

Though we would like to think COVID is a distant memory, it still is not. We personnel here expect some cases at the bank, of positive COVID, fortunately with very few complications.

But, it's still apparent that in all areas of business, employment remains to be an issue, from obtaining talented workers, to retaining, which has had an overall impact.

Some of our vendors who provide services to us and our customers, experienced an exiting of talent.

So, even though they're replaced, you know that expertise goes out the door and redevelopment takes time.

Results in, you know, service that isn't quite as satisfactory, and more effort is involved.

New development takes not only time, but it takes overhead expense, because we know those coming into those new positions, are making more demands.

The salary levels are going up, and so this kind of begs the notion of maybe are we seeing new normals in overhead expense.

A $20 entry level per hour pay, is maybe $50,000 on average for an entry level universal banker.

So, as these costs rise for banks are

cooperating and cybersecurity costs also rise.

So, it will be interesting to see the demands on all businesses throughout the State of Illinois.

So, this brings me to the subject of mergers and acquisitions. Illinois still number two in charters behind the state of Texas. I think we're both at somewhere around 380. And, we both continue to experience merger activity.

It slightly tapered off during the peak of the pandemic as you know, but, however, as costs mentioned, you know cybersecurity, regulative compliance, and demand. Sometimes this is the best option for mergers and consolidations.

There have been many changes in banking since the last merger applications we know. Some dated 1995. We do not exactly effect all the, reflect all the changes.

Online banking is a perfect example of enhanced market access, and, also for non-bank financial firms. Fintechs, credit unions, and farm credit.

So, we ask the question, as you're asking the question so how big is too big? Now, we realize the topic is being reviewed, and we would ask for continued pursuit of updating the process and the guidelines, to ensure all data is properly captured, and for accurate view of our competition.

In addition, we'd strongly support the update of the CRA regulatory framework, to support, accurately reflect digital services.

Hopefully, this would also help begin the modernization of CRA regulations; would assist in the analysis of bank mergers, identifying convenience, and the needs.

On the subject of climate and banking, we realize there are benefits to this, and, also it's kind of like I look at it as like a CECL, and probably we talk about overdraft fees.

It's not going away, and for good

reasons. And, there's no argument there.

The State of Illinois has been on more than several occasions, used the banking system to be their own so-called record keeper, without consulting the channels involved, and up front.

So, I would ask that the bankers have a seat at the table in order to assist, and be part of this problem solving when we're talking about climate and banking.

I say this over and over again, we are a very regulated industry and that even though there's not always clear paths of how we comply, we just do it and we figure it out.

So, part of our jobs are to know our customers. So, who better to assist us in understanding those customers, which had an impact, or impacted by climate and environmental issues.

I know there are bankers on this call, within the group there are specific comments and have specific knowledge about this, so I'm going to leave the rest of that for them, and I encourage them speak more on their behalf.

We just ask that you provide bankers a seat at the table.

Last month, FDIC we all know, provided guidance on consumer compliance supervisory highlights, addressing non-sufficient funds for transaction items that were presented multiple times, resulting in overdrawing account fees. They're charged for the same items, re-presented items.

So, it was discussed that this practice may fall under deceptive and unfairness, that's harmful to the consumer. Examinations are finding disclosures and definitions that may be unclear, and I would not disagree with that.

And, are charges for re-presented items, charges that, you know, we don't want to charge the customers and really probably it isn't our intention to do that.

Although it takes more time to review

these items daily, Solutions Bank is trying to find the most effective method possible to do this, and still even though we do that, I can't guarantee you that we're accomplishing at 100 percent.

And, I've heard from core processors that they are unable to accommodate providing necessary reporting to assist. Well, we've heard this from our same provider, Fiserv Precision Core.

But, we're continuing to press the matter, and our own operations staff is trying to find the best way possible.

What would greatly help is if the FDIC continued to pursue resolution of this practice, it would be greatly beneficial to bankers to have the FDIC support demand for processors to help us figure this out.

They have all the data. The data is there. So, I have no doubt that they can provide better methods than we currently have today.

If left to the bankers to progress the cores, I'm afraid it will not happen.

Continue the conversations regarding fees, banks have again become under fire from the CFPB branding almost that fees associated with banking, even those who've regulated the CFPs as junk fees.

Now, national surveys I've read more in consulting lately, found that 83 percent of U.S. adults believe that their bank is transparent in disclosing fees, and 62 percent believe that account fees charged by their banks, are reasonable.

Of course, you know, fair, reasonable, are of opinion and perception.

I do not believe my community bank and others set out to intentionally take advantage of their customers and charge them excessive fees, just because we can.

More recently in Illinois, I speak to Illinois, our attorney general has signed a multi-state letter calling for elimination of overdraft fees. And, he specifically calls on the heads of Chase, it was BofA, US, and Wells, I believe, to eliminate overdraft fees.

So, we're getting this from both sides, fed and state levels. We'll probably continue discussion on this.

Our bank recently went through the list of fees and ironically, some of the fees, there's a lot of things we don't charge for, or we waive the fees. Some of them are there for behavioral things.

So, I did challenge our staff and say, you know, we had to publish and disclose our list of fees, but why don't we put a list together of things and services, for which we do not charge. I strongly believe that the list would be much longer.

Other topics we have up today, central digital, banking currency, and cryptocurrency. I'm really not very educated or understand, I believe to provide an educated opinion on this.

Now, it's my understanding though, the credit unions have been given kind of a green light to hold crypto, and if that's the case, I of course would approve of that fact because we always feel that banks should be entitled to have the same advantages and benefits of credit unions.

But, in this case, I'm a little bit on the outlier and lean towards the side of caution, when we're making decisions regarding these matters.

I'm always a follower, so and I'm not going to quote Warren Buffet and what things have been said about crypto in the last couple of days, but also do believe that the federal system is very important to our economic future.

However, technology is as well, and in our future and decisions, a decision needs to be made, it's understood.

There are a lot of good salesmen out

there, so my message is, please proceed with extreme caution.

In this month of recognizing banks, community banking and financial literacy, we should remember how many people remain unbanked, do not use digital services, and have been scammed.

Fraud is still on the rise and it goes in streaks, but it remains an everyday event. An everyday event where we try protecting our customers from literally, themselves.

I have not seen lately too much in the media about this, so that's in our community, we're trying to work with news media. Not everybody has internet banking like I said, so we're trying to get the message out there.

And, if there's anyone out there that feels that they have found something that works well, I'd love to hear more about it.

Because I think it is extremely important. People are still being taken advantage of.

I think with Illinois always seems, like I said, to be a busy state. Proposed bills. Recently our banking lobbyists were able to help a retail theft bill be revised, which came in the last minutes of session ended.

And, I'm going to end at a high note, that Illinois did pass their budget before the general assembly adjourned for the spring session.

They approved a $46 billion surplus budget that invests an unprecedented $1 billion into an Illinois rainy day fund, and also pays an extra $500 million towards pension obligations, which have been of issue in Illinois, and increases funding for schools.

So, for this year and the next, it sounds better for the State of Illinois, and is good for all of Illinois.

So, that's what we have going on in my area. Again, I thank you for your time and attention to hear what is happening in my Illinois area.

I would like to turn it over now to Mr. Gilbert Narvaez, Jr., President and CEO of Falcon International Bank.

MEMBER NARVAEZ: Good afternoon everyone. I'm Gilbert Narvaez, Jr., and thank you, thank you again Betsy, for the introduction.

I am President and CEO of Falcon Bank. Our bank is headquartered in Laredo, Texas. We've been in operation for over 35 years, and currently stand at $1.9 billion in assets.

We conduct a significant part of our business along the Texas/Mexico border. The bank's 17-branch footprint also extends into the south-central region of the state, which includes the metropolitan areas of San Antonio and Austin.

We did have a small branch acquisition in late 2021, small town south of Laredo in Zapata, along the border still, to service that community of business that we had already for that area.

Our branches primarily service communities comprised of a predominantly Hispanic population, and also serve many customers in the low- to moderate-income areas.

Being that Laredo is one of the largest inland ports of entry between the U.S. and Mexico, international trade and transportation sectors continue to be very active, and very important sectors of our operating environment.

In 2021, the Port of Laredo handled over 5 million cross-border truck shipments. Over 250,000 railcar shipments, and over 600 million pounds of air freight.

Other ports along the border, such as the McAllen metro area and upstream and to the Eagle Pass market, are also major contributors of the transportation trade activity in our region.

Regarding local banking conditions, today all of the markets are experiencing positive economic and business activity, measured at or better than pre-pandemic times.

We don't have any, you know, no gloom and doom yet. We're cautiously awaiting for some slowdown.

We do, however, as I think most participants will probably be dealing with this. We do have some labor market challenges across the board in all our markets.

The market is very tight, and very competitive. It's been difficult task for recruiting and retaining certain positions. But we're navigating through those, through those times.

Loan demand has been robust in various CRE sectors in most of our markets. Anything from warehousing, hospitality, land development. The same is said for the housing market. We're experiencing some continued growth in the 1-to-4 family, and multi-family construction.

We see our net interest margin

improving as loans reprice, and pre-payments of mortgage-backed and CMO sectors of our investment portfolios have slowed, increasing the yields on those instruments.

As the Fed, as we see the Fed continue to raise rates in their efforts to contain inflation, we expect it to continue to enhance our net interest margin.

We've experienced no pressure on increase in deposit rates, as most banks continue to be flush with liquidity, and see no necessity to pay up for deposits.

Our bank’s low loan-to-deposit ratio is at 60 percent, indicative of the bank's strong liquidity position. Normally we've in previous years, we've run in the 75 to 80 percent range.

On loan performance, past dues, net charge-offs, and adversely classified asset levels are at all-time low.

We continue to see companies and investors from the West and East coast coming into Texas, to set up shop and invest in real estate ventures. Everything from income producing properties to ranch land.

So, if we do enter any type of recessionary period as it's been in the past, usually Texas is last in and first out. Hopefully, it will be short-lived for Texas.

There are some regulatory concerns that Betsy already spoke about, regarding overdrafts.

The CFPB's recent stance on junk fees, on ODs and all that, but I know that this will probably be covered later in the program.

But we do just, I guess to keep in mind that community banks are primary providers of consumer access to diverse options of meeting liquidity shortfalls.

Finally, on the COVID front, COVID is pretty much in the rearview mirror for now, and we hope that we can continue to avoid any further business disruptions caused by this, any additional surges of new variants.

Going forward, we believe that we're going to have to just continue to live with it, learn to live with it, and like we've done so in dealing with other, other illnesses such as the flu.

This concludes my report, and I'll hand over the program now to Mr. Harold Horvat, which is our next speaker.

Thank you.

MEMBER HORVAT: Thank you, Gilbert. Thanks for the introduction.

My name's Hal Horvat. I am the CEO of Centreville Bank, and we're located in West Warwick, Rhode Island.

We were founded in 1828 and we were founded originally by, -- to service the needs of the industrial community here. Mostly millworkers in West Warwick, Rhode Island.

We currently are just under $2 billion in assets, and we have 17 locations, nine of which are in Rhode Island, and seven of which are in Eastern Connecticut. So, it's serving that Rhode Island/eastern Connecticut market.

What we're seeing today has really been, the last six months of significant recovery to our economy. Our employment rate is down, down below the national average, and that's improved things significantly.

We're also experiencing something that a lot of my colleagues across the country have talked about recently, and that is that our real estate prices continue to rise.

Our inventory of housing is very low, and it's caused significant increasing in prices, as well as we were having price wars and bidding wars for property. And, that has continued.

We expected that to sort of wane down a little bit after the first of the year, and it has just continued.

Our labor market as I think Betsy mentioned, is still very tight. Lots of industries including the banking industries, have, have problems filling positions.

And for us particularly, it's on the banker or the universal banker level. It's always difficult to recruit, and our competitors in this area have experienced that as well.

Beyond that, certainly we're very tied to hospitality. We have a lot of restaurants and hotels in this area, and they have had some difficulty filling those position as well.

So, it's kind of an interesting market right now, but by and large, it's been pretty strong from an economic standpoint.

In terms of the bank's condition, we had a record year last year. Record in terms of net income, and loan growth, and efficiency.

I think one silver lining of the pandemic, is the fact that we've been able to operate more efficiently both over the last couple of years, and I think we're better, better equipped to do so in the future.

Our asset quality remains very strong, at record levels. And, we're particularly pleased by that fact, particularly in light of the fact that we have over $135 million in hotel loans, which we had at the beginning of the pandemic.

But I think it's a success story. A combination of the bank deferring payments on those loans, PPP money coming in from the government, and cooperation from the FDIC, quite frankly, allowed those companies to get through the worst of times.

And, they've come through pretty well. I would say without any exceptions, it's been through a lot of hard work on their part, but it's definitely a success story as far as I'm concerned.

Deposit growth has continued, but not at the same level it had over the last couple of years. We had expected it to come down a little bit in the first quarter, and that just hasn't happened, it's remained steady.

So, the first quarter's been also very good. It feels a little bit like the calm before the storm, with inflation issues and rising interest rates. But first quarter has been very good.

In terms of what we expect for the rest of 2022, we expect commercial real estate to continue to be strong.

And, we've had a lot of success in that arena, particularly in terms of apartment, warehousing, and also self-storage have been the three areas that have really kind of grown in this area, in the eastern New England.

We're cautiously optimistic. We feel like we survived a very long period of low interest rates, the pandemic, et cetera, and that we're in very good financial condition to handle what comes next, although it being uncertain.

We're also concerned about regulatory issues, as I think Betsy and Gilbert mentioned.

We're very concerned about having a seat at the table when we start talking about climate change, and any legislation that comes into place, or any regulation that comes into place, that affects banking. We think it's important to have a voice at that table.

I would also echo some of Betsy's sentiments regarding the overdraft fees, et cetera. I think it's important to understand the role that community banks play with their customers, and how well they know their customers. And, really talk to consumers about that particular issue. So, enough of that.

With that, I will turn it over to Robert James II.

MEMBER JAMES: Good afternoon and thank you Hal. My name is Robert James II. I serve as Executive Vice-President of Carver State Bank, in Savannah, Georgia.

Thrilled to join this Advisory Committee, and my first meeting.

Carver State Bank is a 95-year-old African-American-owned institution, located again in Savannah, Georgia.

We are also a certified CDFI, Community Development Financial Institution, with a mission to provide the building blocks to financial freedom.

Our bank is in excellent condition with our highest ever level of tier 1 capital, and excellent asset quality.

We recently closed on an acquisition of a controlling interest in another bank, a charter in Alabama, which will be the first acquisition in the history of our institution.

We are experiencing extremely high liquidity, which remains a holdover from the pandemic.

And, we are seeing an uptick in loan demand, but it's still softer than we would like, especially with regard to the quality of loan requests.

Inflation is continuing to put pressure on construction projects in our market, as well as the supply chain issues that continue to plague many of our customers that are contractors.

And, so we're seeing a great deal of growth in 1-to-4 family real estate, as well as in larger multi-family real estate projects.

We're seeing an uptick in other kinds of commercial real estate for community facilities, and distribution facilities, but we are seeing prices continue to increase, so it's hard for many of our customers to adhere to construction budgets.

Housing availability and affordability continues to worsen in both urban and rural markets in Georgia, for different reasons in the larger urban areas than in the rural areas.

But they both are, were both, both areas are experiencing some housing challenges, and housing affordability continues to be a challenge across the market.

We just wrapped up a state led joint safety and soundness examination, and so we were happy to have our friends from the FDIC in the bank for the first time since the pandemic.

We are currently undergoing CRA and compliance examinations. We also recently received some very excellent technical assistance support from the FDIC, on a couple of interesting topics for us.

One was around a planned partnership with a Fintech company around consumer lending. And, we wanted to get some real guidance on that from the FDIC, from a regulatory and compliance standpoint.

And, we also are looking at expanding our service territory, and so we wanted to get some advice around how we construct our CRA assessment area, so that we can maintain our outstanding CRA certifications.

We are in line to add new tier 1 capital this year, as a result of the Treasury's Emergency Capital Investment Program, that was enacted in December of 2020, as part of one of the pandemic relief packages.

This new capital is still greatly needed, because the pandemic really exposed the continued systemic need for capital, particularly in the minority and low- and moderate-income communities that Carver has historically served.

As well as the need for our institution to greatly accelerate the path towards digitization of our services, so that we can make our products and services available in a broader way, and more efficiently.

Our core processor agreements continue to be an impediment at times, to the rapid digitization of our products and services.

And, so we continue to engage with our core processors to try to get them to the table to be more of a partner, and less of a, less of an impediment to our ability to digitize our products and services.

We are, I agree with Hal and Betsy that spoke earlier about the nuanced position of overdraft fees.

Our customer base many times uses overdrafts as not, they're not being preyed upon, but often times we have many customers who use overdrafts as a tool for liquidity in their personal lives.

And, so we would hope that the regulators and Congress, will continue to evaluate overdraft fees a little bit more, in a little bit more nuanced way, and really look at how they're being used in communities across the country.

Finally, I agree with previous speakers who have talked about the challenge with regard to talent acquisition, especially in our institutions.

And, especially at those entry-level

and customer-facing positions. We're finding it very challenging to acquire new talent to backfill our employee base that has been stressed, stretched, and stressed, in the past two years.

I want to thank you again for the opportunity to speak, and I'll turn it over to Arlen Osterbuhr, Chairman and CEO of Minden Exchange Bank & Trust Company.

MEMBER OSTERBUHR: Thank you, Robert.

Thank you, Robert, hopefully you can all hear me. I would like to thank you for asking me to be a part of this committee. I truly enjoy being a community banker.

I'm located in Nebraska. Minden Exchange Bank & Trust Company is 138 years old. It's owned by a family, and has been here since it started and it's still the same family.

We're located in south-central Nebraska, which is right in the middle of the United States. And, we are $200 million in assets.

Nebraska's economy is very strong right now. Our employment, unemployment rate is 2 percent. Labor force is short. I think it seems like jobs are available everywhere.

The recruiting of employment and employees is highly competitive right now. And, we are certainly looking for people all the time for our local businesses, our retail, and also our commercial and industry businesses as well. The labor force is short in our area.

The Minden Exchange Bank has been very aggressive, and very conservative with our thoughts and our philosophies. And, we are active in agricultural, commercial, and industrial credits, as well as consumer and real estate.

Inflation here seems to be soaring, just like most everywhere. As Ms. Johnson mentioned earlier, the agricultural sector has been very strong, and we have seen input costs increase for our farm customers, and we are a strong agricultural bank.

Our 2021 operating year was very good. Our production level in our area was 20 percent higher than it's been in the past. And, commodity prices were very strong.

So, this has created a lot of liquidity in our bank, and in our region. So far, we have had land prices increase, as well as our residential real estate.

And, our land, irrigated farmland here is running about $11,000 to $12,000 an acre, and I assume that it will be increasing as time goes along.

There is also a high demand for expansion in the farm operations as well.

Residential properties and housing construction has been on the increase. Most of our communities have new developments going on for residential real estate.

And, we are pleased that there are

actually increases in population in our smaller communities, and that there is demand for homes to be built.

Our loan demand here has been as high as 85 percent, maybe a little higher. But right now it's around 60 percent.

We have a high amount of liquidity. Our net interest margin is improving due to that, as well as our liquidity for the bank is also improving as well. Loan demand is on the increase, and our deposit growth has been very good.

Some of the issues and concerns that I, and we have had here in the bank is regulatory issues.

And, I was starting in banking in the 1980s, and another concern that we have is the increase in interest rates at too fast of a pace.

I hope that the increase in interest rates is slow and stable, and there's a lot of rational thinking taking place during that time.

We have recently finished up an FDIC examination for safety and soundness. Our IT area, our trust area, and BSA, all of which turned out very well.

Unfortunately, the FDIC examination team was unable to come into our bank and conduct the exam.

However, they were very diligent and professional in their work, and they worked offsite and we provided a lot of the information by way of the technical IT area, and scanning documents. So, I'm very pleased with that.

And, that's really all I have with regards to our economy right now. I'll turn it over to Dominik Mjartan.

Thank you very much.

MEMBER MAUST: Thank you, Arlen. I believe I'm next, so I'll go ahead. If not, please let me know.

My name is Trey Maust. I'm the Executive Chairman and one of the co-founders of

Lewis & Clark Bank.

We are a, about a 16, almost 16 year old institution based out of the Portland metropolitan area, serving Oregon and southwest Washington.

$400 million in assets. Three branches. Actually have a couple on the coast, which provide a nice mix of consumer, as well as small business deposits. Particularly in the industries for individuals that are visiting the coast.

I did want to talk a little bit about the Oregon economy. It's one that we really haven't seen as tight in terms of labor market, as we have more recently.

And, it really has to do, at least what we've experienced is on the supply side of the economy. It's not that the supply chains are broken, but the consumer demand seems to be so great, that the supply chains are overloaded.

I know that the economy is producing,

transporting, and selling record volumes. We're seeing that in collections at the state revenue department, but production just hasn't kept pace.

And, I think we know the labor markets, or labor itself runs through everything and really has been the single biggest constraint that's been holding back the real economy. Or at least the growth in our state.

We are seeing from a productivity or response standpoint that firms are investing in new plants, equipment, and software. Things that enhance productivity. But the labor market's pretty tight.

Two percent is incredible. Ours is at 3.8 percent. Interestingly, we are seeing a labor participation, labor force participation rate that is far less than it was 20 years ago.

As baby boomers are retiring, it was at one point 20 years ago, 69 percent. Today it's at 63 percent. It's slowly increasing but that's a pretty significant difference between

2000 and 2022.

Oregon did add a record number of jobs last year, as workers returned to the labor market. But even so, it remains pretty tight given the strong demand from firms, and also the ongoing retirements from the baby boom generation.

I think it comes as no surprise that the biggest risk, and really outgrowth of the supply constraints, and the ability for people to actually purchase and consume goods and services, is the persistent risk of inflation.

A year ago, much of the inflationary pressure, I think in our area it could be tied to reopening of the economy. And, also in Oregon, the semiconductor shortages in the auto industry.

Since then though, the inflationary pressures have broadened, and remain more persistent than expected.

To date, households still have the ability and willingness to pay higher prices for goods and services, which isn't helping.

Early in the pandemic, I think we could tie this to, directly to federal aid. And, an initial decline in spending during the shelter in place phase of the pandemic.

But since then, federal aid obviously has lapsed, but it seems to be the remaining surplus of liquidity that consumers have in addition to a booming labor income, has offset a lot of that impact that the federal aid had. And, there still is ongoing spending that's really driving inflation.

While consumer spending has returned to pre-pandemic levels overall, the income gains really mean that overall households have savings that remain elevated, and they seem to be willing to spend it.

Income and wealth though in Oregon, and this I think is an important consideration from a CFPB and also FDIC's perspective, income and wealth is not evenly distributed in Oregon.

There's a pretty considerable inequality. Fortunately, Oregon is a bit more equal and at least that was, I'll use that as a quote because that was actually the Oregon Economic Department was providing this as a quote, ranked 37th in highest in 2019.

So, it's not the worst, but it certainly has a long way to go.

And for this reason, we're seeing the accumulated savings and overall increase in wealth concentrated among higher income, and high net-worth households, particularly a high number of households.

They also tend to be the ones that have businesses and higher savings rates, and so that inequality does continue.

That said, a couple of surveys or research reports coming out of the Federal Reserve, and JPMorgan Chase, showed that savings and wealth gains were fairly evenly distributed in terms of percentages.

But it's encouraging to even as inequality remains pretty large, low- to moderate-income households in Oregon are in a stronger financial position today, than before the pandemic.

I think the tightening labor market certainly helps that.

A final factor for households is that credit usage and overall debt levels remain fairly low, historically speaking, which means there's capacity to utilize that.

I think Director Chopra's comments about what we're seeing in terms of credit card balances, is something to consider at least in our state, that as those start to become elevated, that will continue to drive a couple things.

One obviously inflationary pressures, and two, is the potential for defaults and strain from a fiscal perspective, on individual households.

I did want to talk about a couple of banking matters. One of those is cyber. I noticed that was on our agenda for today, and it's an area that I'm very interested in being involved in a fair number of, of operation resilience and cyber initiatives for the industry.

We spent, actually I'm in Nashville today having spoken at the NACHA conference on operation resilience.

It's an area that I think, when we think about the ability for community banks to continue to serve their communities, and for us to be able to continue the relationship banking approach, we need alternate modes, and other ways of delivering services in the event that we are impacted by a destructive attack.

And, so I'm very interested in hearing the comments today, and those are areas that I think we have, we've made progress but we have a long way to go to be appropriately prepared.

I think community banks, I mean relatively non-complex business models, are able to mobilize alternate modes of serving customers much quicker than large, complex institutions, but should be at a forefront of our minds of how we do that in the event that we are impacted.

Two other areas that I'd like to talk about today. One is the community bank business model.

I liked, and I actually wrote down from Director Chopra the quote, "how do we preserve relationship banking while also leveraging technology?" And, I think that's critical.

The ability for us to take the culture of community banking, our approach coupled with our really from an industry prospect when I look at other industries.

We have an unparalleled, or unmatched ability to manage risk, to comply with regulations, rules, and statutes.

And, a willingness to do so. Which is really embedded within our industry, particularly at the community bank level.

How do we take that and at the same time, leverage technology through your third-party service providers, through channel partners, and through marketing partners, to reach demographics that we can't, and as I was referring to earlier, the income inequality, the ability to access financial products.

How do we take that relationship banking approach that we are really masters at, and leverage that at scale through technology?

The challenge that I've seen in, from an innovation perspective, is matching up that culture with the culture of financial technology founders and firms, which have a tendency to look at the market and say, how do we make the market more efficient, more effective, at scale.

How do we create an MVP, which is not compatible in my mind, with banking? Banking needs to be something that can run 24/7, 365, no matter what the stress is on a system.

So that consumers, businesses, any counter-party that we have, can rely on the ability for us to store money safely, to move it safely, and to continue to lend and provide capital to the economy.

And, that confidence can be broken if we are working with partners that do not respect that foundational safety and soundness and consumer protection is necessary to have that level of confidence.

I think we have a very important role to play in innovation. And, the coupling of relationship banking, and a healthy respect for risk management and compliance, I think is that foundational, really element that can drive innovation forward.

I don't think we can substitute for Fintech. I think financial technology is here to stay and will only continue to grow.

What we can be is the adults in the room, to ensure that furniture and other things aren't broken, when they're running around testing and breaking things.

But at the end of the day, I firmly believe that innovation has to move forward, but we can provide that guidance to those companies.

And, so I appreciate the FDIC's proactive approach to providing some initial guidance on third-party service providers, particularly in the technology arena.

And, jointly, across an inter-agency effort to give us some perspective on where agencies stand on this.

I'd also encourage the FDIC and the CFPB to help community banks see how we can actually provide that guidance to marketing partners, to channel partners, and to others as we move forward into the next decade.

Thank you.

I'd like to now turn it over to Shane

Pilarski, President and CEO of Alliance Bank.

MEMBER PILARSKI: Thank you, Trey. And, thank you for the opportunity to speak with all of you. There is nothing that I love more than talking about community banking.

I am President and CEO of Alliance Bank. We are about a $410 million bank. We have seven locations over four counties in Northwest Indiana.

So, in our part of Indiana, Ag and manufacturing really are the primary industries. And, half of our loan portfolio is with Ag, or Ag related businesses. So Ag is what we know well, and we do well.

As some of my peers have already talked, I know Betsy mentioned in their area about their Ag conditions, and being the neighbor to Illinois, much of what she said is similar to what we're experiencing.

The last two years for our farmers have been great years. So, that has helped us from a credit quality standpoint. Our credit has been excellent; lowest delinquencies we've had in a very long time.

On the flip side, it means that their need to borrow has been less. So therefore, our loan-to-deposit ratio has continued to go down, as they've had less need to borrow, and our deposits continue to increase.

Not only those kind of flight to safety, park it here until investments go up, but also because those same farmers have excess cash to deposit.

I echo Betsy's comments about the Ag industry. There are concerns about the input costs. However, we've not seen that really have an impact yet on our farmers, but definitely something on our radar.

And, concerns on the spring weather and their impacts to them being able to get in the fields and plant.

Some people have already talked about

Ag land values, and we're seeing much of those increased values.

I will say we've actually seen sales go for even $15,000 to $16,000.00 an acre. And again, remaining as Ag, not going to be converted into housing development.

With that, talking about housing development, we are like many of you have talked about, experiencing a shortage of housing.

I live in a very small community. We say that there's 1,000 people in Francesville, but I think that might be counting some of the dogs and chickens.

And, we typically in a housing market, you know, there will be four or five houses for sale in Francesville, for several months. That's not unique.

Currently, there may be one house on the market, and it goes pretty quickly. So, that's a rare experience.

So, not only is there a shortage for

just purchases, but also rentals. There's a big need for those as well.

But with Ag going well, nobody wants to give up any of their Ag ground to turn that into space for housing. So, that's kind of a dilemma there.

Being an Ag bank, of course a very concern for us is farm credit and the farm credit system.

I could talk for the rest of my time just about our concerns with farm credit, and the unfair playing field, uneven playing field that we have with farm credit.

Their source of funding is much different than ours, their structure is different. But yet, they're our main competitor.

So, we have to compete with someone that has different rules than we do, and that makes it extremely difficult.

I'll echo what a lot of people have already said regarding talent, and the shortage of talent.

We are experiencing several of our employees who are reaching retirement age. And finding people to replace them has been very challenging.

Again, that's had an impact on our overhead expenses and, you know, this hasn't just impacted the bank, it's also impacted all the businesses around us, especially manufacturing.

A lot of our local manufacturers tell us stories of employees that show up day one, and may not come back after a break, let alone the second day. So, definitely a continued concern there.

I would add to what most have already talked about, that a major concern of ours from a regulatory standpoint, is the overdraft privilege, or overdrafts and NSF fee heightened scrutiny.

As a community bank, we know our clients and we're able to communicate with them, advise them, educate them, and hopefully, you know, be a partner.

And, I feel like our clients would be upset if some things changed. So, I would just add, I would like for, you know, the consumers and their needs to be weighed into that as well.

Last thing I wanted to touch on was just what we did just within the last several months, complete both an FDIC compliance, and an FDIC safety and soundness exam.

Both of those were fully virtual. Both exams went well. We still continue to be a solid performing bank, which I'm happy to report.

There were some technical issues with it being completely virtual, so we are very eager for there to at least be a hybrid approach perhaps, going forward with exams.

I feel especially when it comes to the loan portion of it, just being able to kind of be able to see the same documents, look at files together, and have those face-to-face conversations is very helpful there.

I want to thank you for this time to share with you, and I will turn it over to John Wharton.

MEMBER LOWRY: Thank you. I think Mr. Wharton is not with us, so I believe I'm next on the agenda. My name is Bruce Lowry and I am President and CEO of Ireland Bank, we are located in Southern Idaho, the bank is currently celebrating our 130th year of being in business in 2022

And we've been enjoying a good economy in Idaho, we have excellent credit quality at the bank, we have abundant liquidity, and we do have the good fortune of being able to accrete capital at the moment, which is a good thing.

However, it's not being accreted as quickly as we would like or as we've been able to do in the past, primarily just due to pressures on net interest margins. So that is one of the things that we are looking forward to here in the next several months, that we feel like we're positioned to enjoy and improve and in that interest margin as the Fed increases rates.

Southern Idaho, and Idaho in general, is a great place to be right now, we have a very robust economy, our state is growing, and growing quickly actually. Idaho obviously is a very robust agricultural state and a big portion of our bank deals with agriculture and agriculture related businesses.

So, our spring planting has been completed and the farmers are preparing for the irrigation season. Water is a concern for us. Our water year in Idaho starts in September and rolls through, you know, the end of August.

We started our water year for 2022 off very strong but about mid-winter things kind of, we stopped receiving moisture and snow, and so it's put us behind the curve a little bit on the water year for this year.

However, we are having some timely

spring rains that are helping the situation and it sounds like our banking friends in Illinois and Indiana can send some of their moisture our way, and that would be fine. But we did have snow this morning, there was snow on my lawn this morning, so that's a good thing and we're happy to take whatever moisture we can get.

Housing is explosive in Idaho right now, the prices are -- remain very high, there's virtually no inventory of homes, when a home comes up for sale it is sold quickly and for asking price or above. So, it's not to say that we don't have a very robust construction sector, because there are homes being built everywhere, and they're just, we can't keep up with the demand.

Housing shortages are causing some problems into the overall economy, though, at the bank and with some of our customers, we're experiencing challenges of recruiting talent, just because of lack of housing. We can find people who are willing to accept employment and relocate to our areas but then we run into a road block with finding adequate housing for them.

Loan demand in our area is improving and it appears that our deposit totals are starting to stabilize after, really, at least 24 months of very rapid growth but possibly even longer. But, like I had mentioned earlier, we're anxious for some improvement in net interest margin as rates begin to climb.

Inflation pressures are a big concern for us, particularly in the construction industry and in the agricultural industry, this has been mentioned by several others, input costs have increased tremendously in our area, fuel and fertilizer probably topping the list of those, so we'll see how that works out for the year.

The farmers in our area have kind of shuffled their crop plans a bit from what they would normally do, just because of concerns on water constraints.

We're also a very large beef producer in Southern Idaho and so some of those challenges that we've experienced over the last couple of years in the beef industry, through the kill plants and the production facilities to getting beef to the retail markets are a concern for us.

Those seem to have kind of, are working their way out a little bit, however, the price increases that have been seen on the retail level of beef certainly is not finding its way back to the producer at this point.

But this time of year, you know, May and June are beautiful times of year in Idaho, and we do have a seasonal boost in our economy due to tourism. It's a wonderful time to come to Idaho so I would invite you all to come and -- make some plans and come and visit us.

The best way to get to Yellowstone Park is to go through Idaho so come and see us, and I thank you for the opportunity to discuss a little bit about our bank and our region, and I will turn the time over to my colleague, Dominik.

MEMBER MJARTAN: Thank you very much. So it's a pleasure to share this time with you. Thank you, Chairman Gruenberg and Ms. Eberley, and other distinguished leaders from the FDIC, and also my colleagues across the country.

It's really an honor to be part of this group today, and help further the positive role that our community banks have on our great country, and our communities, and our people. So, I hope to be helpful in that effort and focus my remarks on things that may not have been said, so don't take my silence on some of these issues as lack of validation, but I really enjoyed the remarks and certainly concur with all of them, in terms of the key trends we're seeing in our markets as well.

Optus Bank is a unique institution, we are historically focused on underserved communities, particularly communities of color. We were founded over 100 years ago by a group of very courageous African-American leaders in Columbia, South Carolina.

Today, our bank is strong, ready to serve our communities with a little over $330 million in assets, and we soon hope to close on a capital raise of a little over $100 million, which will then position us to really meet the needs of our communities, which have been primarily underserved.

So, with that I want to focus on a few key issues that we see in our communities that may be a little bit unique because of our mission to serve the underserved and the historically disenfranchised, disconnected communities, particularly communities of color. We know they face unprecedented difficulty in accessing credit and capital, which is particularly true in a rising rate environment and the inflationary environment that we've experienced.

We know that disproportionately hits people that have been excluded from some of the opportunities, rising cost of transportation, real estate costs, and other costs have really disadvantaged some of our communities from building wealth, and from accessing those opportunities to build wealth from home ownership, entrepreneurship, or access to other opportunities.

On a more positive side, you know, we are seeing very strong interest in small business growth, a lot of our communities and our customers in our communities have exited their traditional employment during COVID, have entered the entrepreneurship path, which has historically been the greatest way for, particularly African-Americans, to build wealth in our great country.

So we are focused increasingly on making sure that we are a key part of the solution and allowing them to access those opportunities, even in a more challenging or uncertain economic environment.

The other challenges we see in our own

desire to meet the needs of our communities have been mentioned some before but I want to maybe highlight a couple of key points. A lot of the communities and customers we serve, as a minority depository institution and a CDFI, we focus on the more unique borrowers that may have slightly unique needs which take more time to identify and then meet.

Which brings me to some of the opportunities we see in our communities, and a lot has been mentioned around financial technology and partnership, my friend and colleague, Chairman of the National Bankers Association, Robert James, who is sharing this time with us, you know, he's really led the group of National Bankers Association to innovate and to see technology as a way to close the gap with our customers, not as a way to remove us from serving customers.

So, we are increasingly seeing technology and innovation, and partnerships with

Fintechs as a way to deliver services that are more costly to deliver more efficiently, to meet the needs of our communities better, and then also hopefully bring us closer to our customer, not remove us from that relationship customer.

So, we see innovations and financial technology, also the great threat and possibility of various blockchain technologies, as an opportunity that we should explore to find a way to serve more people more efficiently, with better, more responsive, and responsible products and services, as our partners and colleagues at the CFBB look out for them as well.

So those are the key issues, some disruptions that we're seeing in our communities, looking ahead we do see some difficulty for, particularly the more historically underserved communities. We are anxiously monitoring the economic environment, we know that a lot of underserved rural communities, low-income communities that get hit disproportionately hard with economic downturns, and also take much longer than our Main Street counterparts in recovery.

So, we're trying to actively look out for that, both -- in a really wonderful position that we're in, both, in capital, liquidity, and the unprecedented asset quality that we've never experienced before.

So, we are looking out for that and I really want to close my remarks by, again, sharing my appreciation for being included in this great group of leaders and community bankers that are making a stronger country, and stronger communities, and stronger customers for all of us.

So, thank you for this opportunity, and with that I would like to pass it on to Kim Reigelsberger from Preferred Bank.

MEMBER REIGELSBERGER: Okay, this is Kim, I want to make sure everybody can hear me good. I'm Kim Reigelsberger, I'm with Preferred

Bank in Rothville, Missouri, and our bank is having about five locations, and in that we have four that are primarily rural, and one location that we have in the Kansas City metro area.

So, we kind of have a nice balance of what we've got to offer as far as, you know, thinking about our shareholders. Our bank is a family-owned bank and we're relatively conservative, our state charter is 118 years old so, again, like everybody else, it seems like we've been around quite a while.

Right now we're just shy of a $150 million bank, so what has really been interesting is, I think, is not uncommon in this last couple of years is, we have seen 20 to 25 percent growth in deposits, and when you're kind of a relatively small bank and you get that kind of growth, you think, how long am I going to have it, is it going to be here for very long, and how do we best utilize those funds while we do have them?

Again, like I said, where we're a

little bit conservative, you know, depending on whether or not we want to throw more into loans, investments, we were -- so that's kind of been a struggle for us with management anyway is thinking, how soon are those deposits might be leaving, you know, most of it was stimulus, PPP.

And so, anyway, we still have them so it's been very interesting but it's kind of created a challenge as far as our shareholders and kind of where our capital levels need to be, we monitor that regularly so that's been somewhat of a challenge for us.

In the State of Missouri, we have, unemployment of about 3.6 percent, so however, even seeing that, our labor market is still challenged also. We don't, you know, and agriculture, that's primarily the rural area in which they reside here, maybe north-central Missouri, and so even though we had the pandemic we didn't see a huge impact as far as closing businesses, unless it might've been a food service.

So having businesses being open, really, it might've been swings as opposed to how the staff was doing, but we, I think, are pretty much back to normal in that aspect.

One thing that our management has been really monitoring the last two or three weeks is, I know if you look at the futures market where they've already priced in the Fed hikes that are anticipated, you're seeing some unprecedented, unrealized losses within our investment portfolio.

While that in itself doesn't affect capital, one of the things we have as a family owned conservative bank is liquidity. I was just mentioning about the deposits that we have, of where to put those, so again, goes back to liquidity, and so if we would have chosen to throw some of that money in loans, if we needed to fund up any other opportunities that may arise when you've got high, unrealized losses, you sure can't tap into your investment portfolio.

So, what we're doing is we're kind of monitoring that closely, we're monitoring deposits closely, any lending opportunities that might be out there and then we're still considering, you know, at what point do we want to reposition our investment portfolio to make sure that we have additional liquidity. So that's some of the things we're thinking about, as far as management of the bank.

As I mentioned, we are agriculture in north-central Missouri. Missouri is probably one of the leading states when it comes to cattle, cattle herds, we don't have a lot of feed lots, and for those of you who aren't familiar with that, that's where they fatten the cattle and take care of them. But we do a lot of herd broods where they, you know, have the cows and have the baby calves, so we see a lot of that around there.

Actually, my husband and I have a farm and that's exactly what we have, we have cattle and we -- actually this spring time is when we're having baby calves, right now.

So, our cattle farmers are also seeing the impact of high fertilizer costs, for example, nitrates is one of the, part of the fertilizer that we use to spread and right now we're seeing that as three times what it was last year. And fertilizer is used for hay, it's also used for pasture grounds for grazing for the cattle.

We've heard a lot of our farmers say, I just don't know if we can afford that this year, do we just, you know, scale back on fertilizer, or maybe we just, you know, hay, whatever crop we can get, and we'll buy hay from our neighbor, if that's the case. So obviously everybody is kind of re-thinking how they want to spend their money this year.

So, on the other hand, our cattle prices have been stable but we, thinking about how high the cost is for, like we said, diesel fuel and fertilizer, potentially hay, depending on how that rolls out, it is probably going to take the equity maybe that they built up from the sale of grain to help them a little bit this year, but, you know, time will tell.

On our grain farmers, we primarily see corn, soybeans, and some wheat. In this year, in 2022, they've seen extraordinary prices, if our farmers were able to carry over grain for marketing for this year, it's been perfect for them. They've been able to sell and, as we've mentioned, that's also played a part in additional deposits in our bank.

But, the other side of that, they've got big inputs coming in for 2022 crop year, and then just the cost of iron, and, I mean, used equipment, right now, we had a farmer that sold his tractor, front-wheel assist with loader, he got more than he did when he bought it new, about eight years ago.

So, even though I see these prices of grain where they're at, very fortunate that the farmer is able to take advantage of that, but the inflation, I see, like I said, iron prices, I see fertilizer prices, I see diesel prices, I see corn, they'll be able to help fund that, they probably won't need quite as much money this year but it's going to be hard for them to be able to hang onto that for a very long time, as far as that piece of it goes.

A couple things I was wanting to mention too, I do appreciate that the FDIC is looking into modernizing CRA, you know, we are a small bank and it seems like, as our customers grow up with us and they move away, they've got access to online banking, mobile banking, maybe, remote deposit, mobile deposit, and they still bank with us.

So, we think about CRA, whether they've got their own small business or whether they want their home loan, the geography has kind of changed and obviously that's been very prevalent the last three or four years for us, and so I think keeping some of those ideas in consideration as we modernize CRA, I think that will be very, very beneficial.

I think another comment I would like to say is, you know, just kind of reiterate some of the others about the overdraft programs and the NSF, or overdraft fees.

I do want to mention that our Kansas City Regional Office does a great job, they have a compliance newsletter and when I got the one for March, and they had very, I thought, detailed -- because my problem was, you know, are my disclosures detailed enough and is our bank doing everything we can do to make sure we're running an adequate program, and do we need to make tweaks?

So, I just want to say, kudos to Kansas City office for their compliance newsletter that they released in March, I'm going to use that as my training tool, or at least a tool for discussion for our staff here the next couple of weeks.

So, if anybody wanted to go out and pull that down, and you're thinking about the NSF and kind of maybe, exactly, kind of hone in exactly other areas besides just disclosure, kind of how that works and what might be discussing, I think it's going to be very helpful to do that.

Because that's what -- I'm kind of a nuts and bolts, give me the details kind of person, and I felt like that's what that did, so I thought that was a great tool and I just kind of wanted to share that with everyone.

I think one last thing, this is my first meeting, so I appreciate being -- I feel very honored to be here, but out here in rural Missouri we do not have high speed internet, so even though I was able to get the app downloaded by May 1st, I was trying to get logged in to be able to be part of the Webex meeting, it completed a little bit ago but I thought, well at this point I'll just let it stay the way I've got it going by calling in.

It took me 85 minutes to be able to get that initial meeting just going so, as we speak about online banking, we still have a big variety of customers that, we don't have high speed out here, even though we're a bank, we don't, we've got to be very careful about that.

So hopefully in the future that will be coming but it is something that is kind of foremost, and I think this is a prime example, that I couldn't get logged in as promptly as I thought I would, but if we're able to meet in person next time maybe I won't have to worry about that part again.

So, I think that kind of summarizes what I have to say for today, and it looks like next on the list is Andrew West.

MEMBER WEST: Good afternoon, everyone, appreciate the opportunity to be here today. I am Andrew West, I'm the President and CEO of Eagle Bank in Polson, Montana, and we have assets of around $100 million on-balance sheet with about another $70 million in off-balance sheet deposits.

We are one of 18 Native American-owned banks in the United States, the reason I have so many off-balance sheet deposits is because the tribes that own us, they keep a lot of money here and in order to keep our capital where it needs to be we move it off-balance sheet with IntraFi, I'm sure many of you are familiar with that.

Our market consists of the exterior boundaries of the Flathead Indian Reservation which encompasses about 1,900 square miles and 1.2 million acres. There's around 30 to 35,000 people living on the reservation, approximately 5,000 of those are Native Americans, or tribal members, actually. There's many more descendants, but 5,000. There's 8,000 members of the Confederated, Salish, and Kootenai Tribes.

Our bank's mandate, we came into business in 2006, our mandate was to help the under-banked and un-banked. The tribes determined that there was a real need for that because there was a tremendous amount of people that were under-banked or un-banked. We still work every day to try to fulfill that mandate, to the extent that we can.

Regarding banking and economic conditions in our market, a lot has happened in Montana. You know, Montana hasn't changed very much in the last 50 years, up until the COVID pandemic started and the advent of remote work, it has significantly changed particularly western Montana.

We have seen a ridiculous influx of people moving here over the last two years, and frankly, it's had an exceptionally adverse impact to our housing prices and our housing availability. There's many people that have moved here from the west coast who realized tremendous gains on their primary residence, you know, in California, and they come here and they can buy twice the house for half the price.

And this is driving real estate prices up so much that the locals are truly being priced out of the market right now, which is really a little bit of a problem. And, you know, it's not quite as simple here as other places where, okay, if the houses get too expensive you just go somewhere else, you know, a lot of these people, this is their ancestral homeland, so they don't have anywhere else to go, or they really don't want to.

So, it's a little bit of a problem we're dealing with here, the tribes are working on this in conjunction with the local municipalities, the county and the cities, you know, there's -- like I said, it hasn't changed much in the last 50 years but now it's changed significantly and very rapidly.

We don't have the infrastructure to handle all of the growth and it's creating a lot problems, the water and sewer systems cannot handle all of the new people, there is not enough pumps being built, our inventory is exceptionally low. Our jails are over full, there is what amounts to an essentially, a catch-and-release situation here for everyone who's not an exceptionally violent felon, they just get booked and let go.

So, there's a lot going on here that is new that hasn't been happening here in Montana, and it's changing the economy in many ways. For those people who own real estate and are willing to sell it, I guess it's been a good change because a lot of people are cashing out and making some money, but for the people who live here and who are not exceptionally wealthy it's been challenging.

In 2020 and '21 we saw exceptional real estate lending activity, like I'm sure everyone did, interest rates were very low, however, in the first quarter of 2022 we've seen significant declines, primarily from a lack of inventory as well as the rising interest rate environment, it's just kind of shutting down mortgage lending.

Commercial loan demand has been good, it's been above expectations, and it was a little slow for us during COVID, not counting PPP, but right now it seems to be going great guns. I think there's a lot of people that just want to get their funding locked down before rates climb too much, so my anticipation is that this commercial loan demand will soften as we go into the third and fourth quarters.

Many Montana businesses are in the service industry, medical, and construction, manufacturings virtually non-existent here except for some small operations. Agricultural business has been particularly hard-hit by the numerous changes in the local economy, the price of hay right now is at an all-time high and the cost of the inputs to bring cattle to market, not only hay, you know, feed, but also vet supplies, fertilizers, everything, diesel fuel, it's all exceptionally high, it's making it really hard.

In Western Montana particularly, the price of real estate has gone up so much that there's no way, it is a 100 percent barrier to entry into agriculture at this point. The only way you can even remotely successfully ranch here is that you own your ranch and it's paid off, and, you know, that's generally the minority.

So, it's really interesting because the agricultural, rural nature of western Montana is slipping away rapidly, and it's kind of heartbreaking for some of us who've lived here for a long time. Our lifestyle's changing and it's sort of against our will. We're doing our best to work with it and accommodate the new people and everything, but it's definitely a little bit grim at this point.

Except for the hay producers, the people who are growing hay they are selling their hay for three times what it was before, part of that's drought related, but they're doing okay, but the ranchers are struggling.

In Eastern Montana there are drought conditions still, the exceptionally high cost of the inputs is driving grain prices up, grain farmers are doing okay, but wheat is, you know, it's $12 a bushel and it's historically been down around $4. So, they're still getting by but they're still dealing with some drought conditions, really severe drought last year.

Equipment's exceptionally expensive, I think, you know, Kim talked about that. There's literally tractors that sell for $1 million and that's -- it's kind of hard to make a buck when you have to pay $1 million just for your tractor, but they are getting by.

Some notes on the consumer lending space, here we see a dwindling in consumer lending, as many banks are, I think we're being out-competed in many channels of delivery. Credit unions, for one, because they're taxexempt and then also, you know, auto retailers have on-site financing.

Consumer goods retailers, like Best Buy, same thing. People aren't going to go to the bank and get a loan when they can get one right where they're sitting.

And also the Fintechs have to be mentioned, they are making serious headway into the consumer lending space because they offer technologically superior solutions, and I think some of the big banks are getting on board with that, but it's challenging for us small banks to be able to have the money to invest in the IT infrastructure to compete, so that's interesting.

I think, the way I look at conditions right there, they're fair, moderate, I'm cautiously optimistic, I don't -- you know, net interest margins remain compressed.

Non-interest income has declined sharply and I think some of that's being offset by an increase in commercial loan demand, although I do think that with the high levels of liquidity that most banks are sitting on, that it is artificially suppressing commercial loan rates a little bit because people are just wanting to get that money out the door.

And even though indices would dictate we should be charging X, we're charging X minus because if we don't, someone else will. So, it's been a little bit, I think we've seen a little bit of improvement to our net interest margin, but until some of this liquidity runs off and everybody tightens up a little it's probably going to still be some lower interest rate loans than what we wish they were, at least here in Montana.

So, you know, while I don't want to be a doom-and-gloomer, I think everything's okay now but on the horizon I'm a little bit concerned, not grave concerned, but I do think that there's a little bit of storm and, you know, our bank has been, we're well positioned, we have the four and half times the ALLL accrual of our peer group and our asset quality is ahead of the peer group in seven out of seven categories.

So, we're well positioned but it definitely has me on the edge of my seat at the moment, so that's all I have to report, I'd like to turn it over to Margaret Oldner, please. Thank you.

MEMBER OLDNER: Thank you very much. It's been so fascinating to hear people so far and their discussions, and there's so many of it I agree with and some of it that's a little different here. I think a very interesting thing is how across the country, some of the same things impact us regardless of our local demographics and economy.

But anyway, my nickname is Marnie, so Marnie Oldner, and I'm the CEO of Stone Bank. We're a $585 million business and Ag land bank in Arkansas. And about a year ago, about half of our C&I loans were in PPP loans. And now those have all been forgiven. So, we got through all of that. Glad to say no fraud or anything like some of the Fintechs had.

But anyway, despite the decline in the PPP loans that were forgiven, our overall loans year-over-year as of March are up seven and a half percent, and assets are up ten percent. So, we're still seeing growth and happy about that.

Our earnings are very strong. We had a super ROA in the first quarter this year of 278, and that was up over last year. That was at 170-something. So that was good. Earnings are very strong and asset quality numbers are good. So, from that standpoint, we're very -- can you hear me?

MS. EBERLEY: Yes.

MEMBER OLDNER: Okay. Great. I was hearing something else, so I wasn't sure. So, we could be very optimistic just on the face of it, but there are a lot of concerns of some of the same things others have mentioned.

Arkansas banks as a whole grew 7.27 percent in March over the prior year, and earnings as a percent of assets are slightly above, I think, the national average. They're at 1.01 percent right now.

But, that's down 21 basis points from the same quarter a year ago, and that is due to margin compression and non-interest income. And I would think that the non-interest income decline is for those banks that have a large amount of mortgage banking-related income that has softened a bit this year.

Farming in Arkansas is very important. And, if we look at just rice alone, Arkansas produces about 48 percent of the U.S. rice production. And right now, due to weather problems, unlike some of our others that mentioned -- the Idaho gentleman that didn't have water, we've had plenty of water.

So, right now, normally 48 percent of our rice crops have been planted. And instead, as of April 25th, anyway, 14 percent had been planted. So, that's a big change. We can catch up rather quickly if it gets dry, but it isn't getting dry in the next week or so according to the weather.

Looking at farming in general, though, I think that I have a little different take than one of our previous speakers. In that last year, we did see lower loans outstanding for production -- crop loans -- because our customers had a lot of cash. But this year, we are seeing the need for them to go ahead and finance their production, and the input costs are so much higher.

Looking at some of those fertilizer alone, it was $325 to $425 a ton a year ago. And now it has been as high as $1,000 a ton. So that's a huge increase year over year. That is impacting our farmers' margins, but it's also impacting what they are choosing to plant.

So, we have a lot of shift from corn

to soybeans. And so, I know that at a national level, we're seeing an awful lot more anticipation in soybean production as opposed to corn. So how that impacts our overall food supply and the economy I just don't know.

But other costs such as fuel and seed, chemicals -- everything is up 20, 30, 40 percent or more. And although commodity prices are up 20 and 30 percent, it's not near enough to keep up with the increase in pricing.

So, farmers always have a lot to deal with, with regard to weather concerns and that sort of thing, but market volatility is something very difficult to plan when you have this kind of escalation in cost. So, I very much am concerned about our farm community and their margins coming out of this year.

In addition to looking at some of those input costs, equipment -- if you can find it -- is very high. Recently, I was driving through to one of our branches in a very rural part of the state and passed a very tiny community, and yet there was about two miles of cars pulled over to the side. I shouldn't say cars; it was a lot of trucks pulled over to the side of the road.

And, so I pulled over and talked to someone, and it actually was an auction of some used equipment. And there was that much interest in that used equipment. So, availability of equipment and parts and the costs, labor availability, and costs are things that are driving down the margins for our farmers.

Getting off of that a bit and looking at FDIC examinations, we've talked about that. I think a number of people have referenced that. We, too, just finished an FDIC examination. It was all remote this time. So, I think we do feel that loan file reviews can be very efficient off-site, and other things can be efficient and less disruptive.

At the same time, I think most of the

Arkansas bankers I spoke with -- and recently had a chance to talk to bankers throughout the country on this topic, and almost everyone believed a hybrid approach to examination is probably ideal because we do want our examiners to get to know us, and we'd like to have that face-to-face relationship where you can understand our culture and communications are improved. So, I think that is important.

We had a safety and soundness, IT / cyber, trust, and BSA exams. And I felt like our examination team worked very hard to be efficient in this kind of environment and turned our report around rather quickly, and we're very grateful for that.

At the same time, I think our IT people believe that the manner in which we could provide information could be improved. The team we had chose Teams as an approach, but it's much more cumbersome and less cyber secure than other alternatives. So, our IT people had made that suggestion or recommendation. But otherwise, I feel like the FDIC has done a good job in trying to embrace this new world that we live in.

Concerns I think that many bankers have in Arkansas, some of which have already been addressed here today -- but I think when Chairman Gruenberg started his comments and used the word uncertainty, uncertainty just does color everything right now.

And so, with regard to uncertainty, I think bankers remain cautiously optimistic. We do, in a way, keep waiting for what's the real downfall from two years of almost complete shutdown from COVID. And now you have supply chain issues and unusual things that impact inflation, and we're curious as to whether the Fed's approach to raising interest rates will really fix that problem.

I think in addition to the impact that inflation has and rising interest rates together with that have is much to the concept that we've talked to as well, which is the underserved and the unbanked and the disadvantaged, because I think in times like this, they're the ones hurt the most harshly by inflation and by borrowing costs, particularly credit card costs and that sort of thing, or even access to credit.

So, all of these things that are centered around the uncertainty in the world we live in is just this unknown. And for me and for many bankers, we just are very cautious about that. And we watch the health of our borrowers, and right now I think most bankers are reporting that their asset quality indicators are all still very good, or rather flat right now, but good.

And we're looking to see what happens over the next several months in a post-COVID world, and we're also very curious about how many of our customers that had a lot of stimulus are going to get through it on their own as we get back into a post-COVID world. So, uncertainty is a biggie.

We're also concerned about the mounting competitive disadvantages. That's been spoken/addressed by a few people. But we're accustomed to non-bank lenders. We're accustomed to other non-bank competition in the way of deposit competition.

However, right now, with cryptocurrencies, it's taken on a whole new world. And technology moves at such a fast pace that it's very hard for someone like me who's not very high-tech-oriented to understand how we protect the privacy of our customer information and how we protect against bad actors and fraud and hacks in a world that moves so quickly within technology -- also our dependency upon technology, and what do we do when something is hacked or taken down?

Cryptocurrency now taking the place of more traditional payment systems is a concern. That the Federal Reserve would offer a cryptocurrency is a question on exactly how that gets rolled out and how it competes with other currencies. But I think anything that takes deposits off the balance sheet of banks takes away a lot of opportunity for local communities to have their lending needs met. So that's a big concern.

Lastly, regulators and policymaker views the role that community banking plays and the value of community banks as very important. And so, as we watch changes in that arena where we often wonder how it filters down from big public companies to smaller banks, one of the things that I don't believe has been mentioned yet that is a concern is on climate and climate disclosures.

That started with public companies, and I don't know how that really fits with the SEC's mission to protect investors when we have to report so much with regard to climate. But we feel like it can filter down and have unintended consequences.

So, do we start not just talking about those that are in the direct oil and gas industries, but we talk about car washes, convenience stores, and little gas pumps and that sort of thing? It just sort of grows and grows and grows. So, compliance with those types of things is very important.

So, I really do, again, thank you all for including all of us to talk with you at the FDIC. We do appreciate this partnership. And with that, I will pass it on to Mike Bock, CEO of Dairy State Bank. Thank you.

MEMBER BOCK: Thank you, Marnie.

Yes. Mike Bock here, Dairy State Bank, headquartered in Rice Lake, Wisconsin. We are roughly a $700 million bank in total assets -- serve 11 relatively small communities. And when I say relatively small, our largest-population community is about 10,000 people. And then we have a number of them down in the 5, 6, 700 people community size. So, we serve a lot of small communities up here.

We really have a mixed customer base. We're largely a business-oriented bank, but a very mixed customer base. If we go to the southern end of our region, we have some significant Ag producers in various different areas of Ag. It can be dairy. It can be crops. We have turkey operations. We have potato operations.

So, it's a very diverse Ag community up here, and some of those Ag areas are facing some unprecedented challenges. I'm going to touch on that a little bit later, but some very unusual things that are touching some of these Ag businesses right now up here. Professional education to the south and up in our north three are manufacturing. Recreation -- we are literally right on the edge of the prime recreation area in Northern Wisconsin, so we get a lot of wood production out of that as well.

Dairy, what's going on here -- it's

been mentioned many times. Labor shortages, labor challenges -- it trickles down to literally everyone. There's a lot of openings. Pay rates are going up. People are shifting between jobs very quickly because there's a lot of opportunities. Hopefully people stay on a job long enough they kind of get a sense of what the job is all about and kind of settle in.

It's quick turnover. So, a lot of businesses are not only raising rates, but they're trying to do other things to keep people in their markets, keep people in their businesses. And, while there's a labor shortage, we also know we have a major real estate shortage. The affordable housing buzzword is almost nonexistent, while there's new houses being built; there's new multifamily units being built.

With the price of new construction, the cost that goes with those for rentals, purchases, et cetera, has gone up quite significantly. And, now, we're going to compound that with what appears to be the start of some fairly significant interest rate increases. I think we're going to have even greater challenges finding the people we need, the housing we need in our area, to keep things going into the future.

The housing that is here is still continuing to escalate in price if you're selling it. It turns very quickly. We don't know if the realtors are just getting better at marketing the prices initially or setting the prices initially because we seem to be seeing less premiums being paid, but they're just certainly still going at full-price offers, and houses are turning very, very quickly.

We will see where this summer brings. We are in a neck of the woods, and we have a lot of second homes. We are in a lake area. Last time interest rates started moving up and relatively quickly moving up, we saw a definite softening in the turnover of those second homes that are on the lakes. They tend to be higher in price in the first place, and if families are not using them as much as they think, plus the interest costs go up to purchase them, we see those go back on the market and turn relatively quickly.

It has been a cold, wet spring -- getting back to our agricultural producers here -- a cold, wet spring. We have virtually nothing in the ground at this point in time. Normally by the 1st of May, we've got at least a good start. But, there's literally nothing in the ground at this point in time.

So, while general Ag people are very optimistic with the prices, there are some new challenges that are starting to come down the pike at them that they just don't quite know how they're going to deal with. Obviously, getting crops in the ground is a huge one. That's across the board.

But, I mentioned earlier we have some turkey producers in the area, and in our particular county, we've had a number of farms that have contracted the avian flu, or bird flu, as some people would call it. When that gets in a flock, that whole flock has to be euthanized. And, that is kind of becoming a cruel, but common story throughout Wisconsin.

As I came in to work this morning, I heard another news report that two more counties have been detected with the bird flu. And whenever you have poultry scenarios and if they get into the barns, pretty much the whole barn of poultry has to be euthanized and put to death, which is going to put the ultimate pressure on the poultry business.

But, the other thing that has happened -- we also have some very big dairy farms in the area. Because of the labor shortages, the cheese plants and the milk producers cannot get the labor they need to keep their plants running seven days a week.

We know of a case about two weeks ago

that some of the dairy producers received a notification from the production plant that starting two weeks from now, we are going to take eight percent less of your milk production because we cannot run seven days a week anymore.

Well, Mr. Farmer can't call the cattle herd up and just say, dial it back eight percent next week. That's not how it works. So, all of a sudden, we have excess milk that can't find a home, even though there's a need; there seems to be a shortage. But we can't get enough people to get into the production facilities to get that processed, turned to cheese, and put out on the market.

So, there's some really unusual challenges that are coming to the Ag group right now, whether it's the dairy promoters or dairy producers or the poultry producers. There's a lot of different unique things. And while we don't do a lot of direct Ag lending to the farmers themselves, we do a lot of lending to Ag support businesses. And, ultimately, this will trickle down to the customers we serve.

Thankfully, coming on PPP and a lot of assistance, they are in very good spots starting this process. But if this goes on through a long period of time, if we can't get the avian flu taken care of, this could be a prolonged situation.

And what was released this morning that makes it even more uncertain is recent scientific suggestions are this is not transmitted from person to person or property to property or vehicle to vehicle. They're starting to believe that this may be transmitted via the airways. So, when you have windy days, if you have it in one barn, it may transmit through the winds to another barn not too far away.

So, kind of a scary time for a number of the agriculture businesses in the area. They are a very resilient group. They will figure out how to get through it. They've done this before.

But there is kind of a buildup of challenges for the Ag industry up here which makes us, while optimistic, somewhat cautious of where this may take us over the next six to nine months.

Bank-specific current credit indicators remain very, very good. Delinquencies are almost at all-time lows. Past dues don't exist. Non-accruals don't exist. When we do have a freak foreclosure and it actually goes to a sheriff's sale, the bidding at those is almost unbelievable.

In the old days, you couldn't find a person to come and put in a bid. We had one a couple weeks ago that we had eight different parties at the sheriff's sale bidding on the property that ended up driving the price way up.

So, while current credit quality standards are very good for us, we also see the challenges that are being faced by some of our business customers. I mentioned the Ag challenges already, but that trickles down to some of our other commercial customers as well -- labor shortages, supply chain issues, inventory availability, and cost.

Heading into the spring season, we very honestly expect a higher utilization of lines of credit for our commercial businesses than we've seen in the last couple of years. And part of that is coming from two different sources.

Obviously, prices are up, but the other thing that is changing for a number of our customers is the payment terms that they receive when they order from their suppliers has changed. There's a number of them that have gone from net 30 to net delivery. And if you don't have the check ready when the truck drives into your yard, they will move it on down the road to the next business that has a check waiting and ready.

So, the businesses are having a little cash flow challenge, starting to use their lines of credit, which -- after two years of not having much line of credit usage, we are very happy to see that coming through the bank.

It's a new environment and new world that a lot of businesses are having to figure their way through. After a couple years of just unbelievable deposit growth, we have seen that taper. In fact, in the first quarter, we've actually seen some of it reverse.

The reversals we've seen really have been anticipated. They were some unusually large increases a couple years ago that we knew the day was going to come where that was going to reverse. So, a few of those are not surprising, but some of the other commercial businesses that were sitting on so much cash, again, due to change in payment terms, inventory costs, et cetera, are starting to draw down their cash reserves to move forward going into the future. Still very optimistic if they can get the labor that they need to get the stuff done, but it is a change of time.

For us, as we move on through the first quarter, we did not have a lot of loan demand. We had some margin compression -- let me rephrase. We did not have a lot of loan funding. We have a lot of loan demand that when the weather finally gets good and construction can take off and get going and those loans start to fund, we will have some nice loan growth as we had through the second half of the year. But it was very slow first quarter and a slow start to the second quarter.

So, once that loan demand gets going, we're expecting the interest margin to kind of rebound a little bit. But it has been a bit of compression in the first quarter. Now that we see interest rates moving up, exactly how fast that moves through will also be interesting to see.

We think we're in a relatively good spot, but until you actually go through this and rates start changing as quickly as they're being predicted, we'll never see how this is going to go until it actually plays out. We do think there might be a little compression time, but we do think within a year, to year and a half, that will all play out as we get loans to re-price, investments to roll off and re-price, et cetera, et cetera.

So short-term margin compression, but we're thinking that we'll recover as the year goes on. How quickly that comes back time will only tell.

It was mentioned a little bit earlier by some other folks -- scams. Generally, it's the holiday season that these always ramp up. There's no end to this year's holiday season's of scams. And as much as you try to get the word out to customers, whether it's through law enforcement, whether it's news releases, whether it's radio ads, whatever, there always seems to be a new twist, a new term, a new way that keeps our customers a little bit off balance and get tricked into these things.

Multiple people today have talked about cyber-related issues related to us as banks. Obviously, that's extremely important and something that keeps all of us awake at night. But some of the scam issues that we are seeing are kind of coming backdoor into our customers' scenarios through less than strong IT systems.

So, while they don't often come through the business in our door, they're able to get into emails, text messages, and things of that nature that are kind of perpetrating the problem of the scams being -- I guess rising to a higher level.

So, certainly an area of concern. We continue to try to educate customers constantly. Again, being a business-oriented bank, we are sometimes surprised at the casual nature, that some of the businesses still run bare IT systems that are open to the outside world, which ultimately can lead to issues down the road for them.

I think as the word gets out -- I think law enforcement has done a better job recently of getting the word out when certain of these things happen. I think the level of concern and reaction to this vital area of our business has gotten better, so hopefully people tighten things up as they go forward.

But, off to an interesting start to 2022 in a lot of ways up here in Northwest Wisconsin. We are still very optimistic for what's to come through the rest of the year. Labor is a challenge. As we get the resorts open, the bars, the lakes, et cetera, everything that goes with our summer recreation up here, labor is something that people have all been talking about.

But somehow, some way, the resilient nature of these industries will survive. They'll figure it out. It may not be as smooth sailing as they'd like, but it will move forward, and

Northwest Wisconsin will survive.

So those are my final comments. With that, I'm going to turn it over to Neil McCurry.

MEMBER McCURRY: Well, thank you. Thank you.

This is Neil McCurry from Florida. In the spirit of time -- we're a little over 3:00 -- I'm going to keep my comments short, coupled with many of the things I would say have been shared with by some of the other speakers as well.

I will say that it's really interesting for me to listen to my fellow bankers from across the country, hearing the different approaches of banking, how you do banking, the different types of communities you serve.

In particular, I want to point out or salute Robert at Carver State Bank and Dominik at Optus Bank. I think the work you're doing is amazing, and please keep it up. And I think we can all learn from what you are trying to accomplish serving the markets you serve.

So, again, I'm in Florida, and I want to share some comments about Florida, the southeast in general. I would say, from a positive standpoint, we continue to have just steady population growth. Every day, we see new moving trucks coming down with families with mouse ears on their heads.

Tourism is strong, mostly national, not as much international, although that's picking up as well. Unemployment's low, and we're fortunate we have a very supportive business environment in terms of both our local government and state government.

I heard Bruce Lowry from Ireland Bank saying earlier that he had snow on his ground. And, I would tell you that we continue -- we have blue skies. It's sunny outside. So, Bruce, next time you want to open a branch, give me a call if you want to put one in a place that has a warmer operating environment.

From a banking perspective, loan

demand continues to be consistent, and that's just a reflection of the macro trends I talked about in the state earlier. We have strong credit quality; I think all the banks do.

Just as important as the strong credit quality we're having today, we're not seeing any negative trends as far as creeping up of past dues or any other issues at this point that would cause us concerns for what might happen later in the year and in the next couple of years.

And, like everybody, no liquidity issues. Liquidity is abundant. Not to say there isn't some challenges; there certainly is. Like many areas of the country, housing is a big issue. Ownership is tough. Construction costs are way up. And at this point, we don't see any relief in sight on that.

Existing home prices are extremely high. I heard one of the other banks talk about that land cost had gotten up to about $15,000 an acre high. We've just reached a milestone that we have homes that are selling for over $1,000 a foot, so just exorbitant prices here.

And, from lower priced -- I don't know if you can say the word lower priced homes. From the entry-level-priced homes are significantly -- they probably represent what the middle-level market prices were several years ago, and minimal inventory. Our rental costs are -- we've increased our rental rates. We've seen them about 50 percent.

So where all that's happening is that it's making an affordability issue. And, we -- needless to say, that's going to have some negative ramifications, certainly to some degree. We're still collectively trying to decide, one, how bad -- what impact that will have on our economy, as our businesses, quality of life, and how we address that. And, they aren't easy answers, and we're as a community, as an industry, trying to come up with solutions to make sure those challenges that we face right now

-- that there's a solution in the future for them.

From looking forward from the banking standpoint, there was a lot of great comments about issues that we face today. And so maybe I'll just tailor mine a little bit differently and take a little bit of a longer view.

Most of the bankers on this call have spent many decades, their career, in this industry. And, I think back to what risk we thought about years ago, and they were really, I think, other bank competitors and bank robbers. And, we don't really talk about that so much anymore.

While they might exist, I think we've learned to operate within those challenges. And they've really expanded in scope so much, and we've talked about cybersecurity. That's been a topic for a while. Cybersecurity was initially -- we were worried about people taking our customers' money. Then it's taking our customers' information. And, now it's morphing into literally you have other countries weaponizing cybersecurity with the attempt of taking down industries, including our industries.

I think the cyber-hacker of years ago was a 14-year-old kid typing away in their parents' basement in another country, and now we're trying to defend ourselves from other countries as a whole. So it's a very scary prospect as well.

Other challenges, I think, is what as an industry are we going to look like in the future? We haven't changed dramatically that much over the decades. And I remember when I got into banking in the '80s out of college, everybody wanted to work for banks, and banks were doing things. They were growing.

And, now I have two kids in college, and they have no interest in banking and none of their peers have interests in banking. And so I kind of -- why is that the case? Why are we not the industry of choice? I think if we look at some of the things that are part of our life now, the cryptocurrencies, ESG matters, we have to be at the forefront of those. Those topics/subjects are here. They're not going away.

And, many bankers, including myself, we didn't grow up in the industry knowing about those. They're foreign words to us. So we're really all of a sudden -- it's come up around us, and we are in leadership roles now, but we don't have the decades of experience in these new areas like we do in traditional banking roles.

I think we have to all challenge ourselves -- and when I say us, I think that's all the bankers, the industry, I think the regulators, everybody associated with our industry -- how do we work together to make sure that we're leaders, not followers, in these areas? Because if we're not, it's going to -- there's FinTech. There's other players that would love to make the traditional bankers the dinosaurs of the future and make us go extinct.

Partly why that happens is that we don't take leadership roles in understanding these new changes that are here and, in my opinion, won't go away. How do we make sure they're safe for the customers, for the communities, safe for industries, but recognizing that they are going to be here and we need to be a leader in crafting the way that we respond to these and understanding them as well? And, I think we can use these advantages for industries as opposed to running scared from -- I think we have to become leaders in them.

And, I think, again, going back to the relationship between bankers and regulators -- and I understand and recognize the roles that we have between each other. But I think it's important for all of us to also say, what can that relationship look like in the future, and how do we work together to make sure that we're looked at as leaders in these areas as well?

And, there certainly are some banks

that have already taken leadership roles in these specific areas, but I think all of us as an industry have to make sure that we're taking a seat at the table. And, maybe it's more for -- instead of a seat at the table, we need to be standing in the front of the table, talking and teaching and being leaders in the future.

So, I think those are some of the challenges we have to think about, and I think that those will be some topics we talk about today. But at the end of the day, I think every day, we need to think about how we will continue to focus on those areas and how we'll play a part in our industry.

And, with that said, I'd be happy to turn it over to Troy from Altoona First Savings Bank. Thank you.

MS. EBERLEY: And, so Troy had to drop, so let's move to Teri, please.

Thanks, Teri.

MEMBER MESSERSCHMITT: Hello,

everyone. Good afternoon, Director Gruenberg, all the FDIC staff, and all of our fellow bankers. I'm Teri Messerschmitt, and I'm the President/CEO of South Ottumwa Savings Bank.

We're located in southeastern Iowa. We're about a $600 million bank, and quite honestly, with all our liquidity, that made us that amount, but we thought we'd be around $525 million today. So, we do have an extreme amount of liquidity like many of you.

The State of Iowa does continue to be on a rebound. We have been opened up for business, and actually today, I heard that the hotel occupancy rate is back where it was to the pre-pandemic levels, which -- to me, that is very exciting news.

Unfortunately, that good news is hindered a little bit because of our labor shortage that we have in Iowa as well. That seems to be a common theme throughout the day today that many of you have that same issue.

Our unemployment rate in Iowa is about 3.3 percent. We do have one of the highest participation rates. And so most of our people are already working. And so, with people retiring and people leaving the workforce with COVID, we are really seeing a shrinking workforce.

Businesses in general, they continue to experience labor shortages throughout the state. And, we see tremendous competition between businesses for hiring those individuals that are out there. Even current, and sometimes long-term employees are being recruited to other businesses just because there are so many opportunities out there for them.

Attracting and retaining people in Iowa is a concern for our state. And in fact, the Iowa Legislature recently approved a bill that actually cuts our unemployment down from 26 weeks to 16 weeks to help get more people into that workforce maybe a little sooner.

Employment issues aside, our bank continues to be performing very well. Our loan quality overall is very, very strong. We have very little delinquencies. In general, our commercial loan growth in our area really remains subdued with businesses really remaining cautious.

Gross revenues for the businesses have rebounded. I think that they are near their pandemic levels. However, I think the higher costs and the supply chain issues and the reduced net margins -- it's really causing problems for them. And, really, a lot of them are reluctant to spend additional capital for capital expenditures that they would like to make.

On the other hand, though, the commercial real estate loan growth in Iowa has rebounded, as investors are out there with excess cash. And really, there seems to kind of be an urgency with those investors to invest that cash before the interest rates continue to go up further. And, also before the prices go up further, because prices have tended to increase as well.

The owner-occupied real estate has also shown some small increases as owners are eager to complete their improvements or their upgrades, and they're trying to get those done also before further rate hikes come into play.

We do have a concentration of Ag credits within our loan portfolio, and I have some of the same type of comments that my colleagues have already shared today. Planting is currently behind schedule. We've got the wet conditions, and we've got the ground temperatures that have caused that.

However, we're not too concerned yet. Farmers can really get the crop in the field quickly. So, we keep holding out and hope that things are going to turn around and change for us relatively quickly for that.

Commodity prices on the old crops are

strong, and the new crop production prices have remained good as well. They have seen significant increases in the Ag production costs that have been mentioned earlier. We've seen some higher interest rates with the interest rate hikes that we've seen.

And, because of that, we could potentially see an offset in that increased profit margin that the farmers would have seen with the higher commodity pricing. The average cash rent in Iowa, or at least in our Wapella County, is about $200 an acre. We do have some very good ground that's running for about $300 an acre -- some a little higher, but the average is probably around $200.

The market value of our farmland in Iowa did raise quite a bit in 2021. It went up 29 percent, and that's the highest that it's been in 80 years. Our state average is about $9,750 per acre. That's a lot lower than the acre prices that I've heard today, but that doesn't mean that we don't have farm prices all over the board, because we do have a lot of farmland that sells for a lot more, and we have some that sell for less than that. But that's the average.

From a lending standpoint, though, with the increased farm values, we have been requiring our farmers to have more equity in their purchases because we really want to remain at about a 60, 65 percent loan-to-value position in that ground. And, that's just to be cautious.

In general, most of our farmers that have been in farming very long, they're really holding their own right now, and they do remain cautious since many of them have not forgotten what it was like in the '80s. So having that experience behind them is a good factor for them.

Residential real estate lending, that slowed significantly, primarily due to rate increases, the lack of housing inventory, inflated cost of new construction, the overly high selling prices of the inventory that's out there, and lack of loan refinancing.

So, we've really seen that market slow. The combined effect of that higher home prices and the interest rate increases that we've seen, that significantly has increased some of our consumers' monthly loan payments. And, when people are looking at that loan payment, it has actually even taken some home buyers out of the market as well.

From a capital standpoint, our capital continues to be very strong, which allows our bank an opportunity to grow both organically or through acquisitions. We do continue to have several challenges at the bank, and most of these have been mentioned today also.

We have the net interest margin compression that we're seeing. We have limited loan demand in our area. We have 40 percent of our assets in the investment portfolio, and that's a challenge. There's just not a lot of development and opportunities for new loan growth in our area.

With interest rates increasing as well, we haven't really been able to increase the lending rate. And the reason for that is because of all of the liquidity that's out there and the competitors that we're dealing with. They're keeping the rates low. So, so far, we haven't been able to take advantage of the interest rate hikes.

In addition to that, the same competitors with their liquidity, they're still going after existing loan portfolios. So, people are trying to look for places to put that excess liquidity and get the best yield that they can get on that. On the deposit side, we are actually seeing some of our competitors start to increase their rates on the deposits as well.

Another challenge that we have are regulations. Those can be a big issue. Recently, we did become a FDICIA bank. We have over $500 million in assets. So, we are responsible for a lot more of our own internal financial reporting. We're currently working on our CECL model. We've been working on that implementation, but it kind of has been a strain on resources. We've had a lot going on.

We have a very strong efficiency ratio, and we just really have a limited number of employees that really have analytical type skills to work on that CECL model with us as well.

In addition to that, it sounds like the examiners have been very busy this past year. We had a compliance CRA exam in January, and we're now gathering preliminary information for an FDIC exam that's scheduled to begin in June. So, a couple exams this year. And then another issue with regulations is what's been brought up today about future regulations and the unknown related to what is planned for that in the future as well.

While on the topic of regulation, though, Director Chopra -- I was glad to hear him say today that the Consumer -- or actually, he didn't say it, but I saw that the Consumer Financial Protection Bureau stated that they're going to invoke their authority to examine non-bank financial service providers to determine activities that result in UDAAP, the unfair, deceptive, abusive acts and practices, that could cause a risk to our consumers out there. So, I think it's really great that they're going to take a look at those non-bank financial service providers as well.

Fraud is an increasing challenge for us. Protecting our customers from fraud is a daily issue with our staff. We have an elderly customer base, and with our increased online services that we have, it's made our elderly customers even more vulnerable out there.

As a result, fraud is continuing to take up more and more of our staff time. And we're actually seeing more fraud losses out there. As of the end of April, we have taken as many fraud losses this year as we did our entire year 2021. So, we're spending a lot of time on fraud.

The increased fraud cases have also resulted in increased government reporting too, which is another one of those regulation challenges that we have out there. We continue to concentrate on educating our customers and our employees as to giving them the skills and the awareness that they need to limit our exposures in this area. But it is a constant issue that we are dealing with.

And, I guess last but not least is the cyber threats that are -- it's just a constant concern, I think, of all banks out there. We do continue to concentrate on training and educating our staff and customers in that area as well.

So, in closing, I just want to extend a continued thank you to the FDIC and Iowa Department of Banking for all their assistance and support throughout the year. And, I want to thank you very much for your time.

DIRECTOR COPRA: Teri, if I could just say one thing in response. The non-bank supervision program is actually going to be an increased focus for us. There several sets of them, including larger participants in certain markets like consumer reporting agencies, the big three credit bureaus, very large non-bank debt collectors, the mortgage industry including mortgage servicing, parts at student lending, payday lending.

So, it's a key priority for us. I appreciate you mentioning the importance of non-bank oversight to ensure there's a level playing field.

MEMBER MESSERSCHMITT: Thank you.

MS. EBERLEY: Okay. Well, thank you, everybody, so much. We have run a little long. We're going to take a break, a ten-minute break. Come back, please, at 20 minutes to 4:00, and we'll pick back up with the small business survey, Small Business Lending Survey.

We're going to skip our presentation from our Division of Insurance and Research and the regions about conditions from our point of view. I think we really -- we had a very robust discussion and have covered well the topics and really what we would have said.

So, thank you very, very much for the great report outs, and we'll see you back at 20 till. Thank you.

(Whereupon, the above-entitled matter went off the record at 3:28 p.m. and resumed at 3:40 p.m.)

MS. EBERLEY: All right. Well, welcome back. For our next item, Phil Shively, the Deputy Director of Research and Regulatory Analysis, in the Division of Insurance and Research, along with Yan Lee, an Economist in the Division of Insurance and Research, are going to discuss the Small Business Lending Survey. Phil, I'll turn it over to you.

MR. SHIVELY: Very good. Thank you,

Doreen. Good afternoon. It is good to be here with everyone today. As Doreen mentioned, I'm Phillip Shively, Deputy Director for Research and Regulatory Analysis, in the Division of Insurance and Research.

I'm here today with Yan Lee, who is a Senior Financial Economist at the FDIC, and she is the Team Lead for the FDIC's Small Business Lending Survey.

Yan joined the FDIC after receiving her Ph.D. in Economics from UCLA. And, before her graduate work, she was an Examiner at the Federal Reserve Bank of New York and received her B.A. in Economics from Columbia University.

Yan is here today, to talk to us about the Small Business Lending Survey, and with that, I will turn it over to you, Yan.

MS. LEE: Great. Thanks so much, Phillip. So again, as Phil was saying, my name is Yan Lee and I am the SBLS Team Lead for the SBLS, which is the FDIC Small Business Lending

Survey, and we call it SBLS 2022, because it will be launching in June, of 2022.

So, what is the SBLS? This is a nationally-represented survey of banks and their small business lending practices and activities. So again, as I was saying, it will launch in June, of this year, and our last survey collection was in 2016.

So, it takes about five years to implement this project. It takes a lot of work and the questions changed, so we're basically asking new questions that really represent the industry.

So, we've contracted out with the U.S. Census. So, we contract out with the Census because we want to make sure that we can make sure that the -- the respondent identities of the banks are protected and that the project follows the rules of Census and -that agency.

So, approximately 2,000 FDIC-insured institutions will be asked to participate. Next slide please. Okay. So why are we talking about the Census today and why is the SBLS of interest to community bankers?

First of all, small businesses are very important to the U.S. economy. According to the SBA, they are 99 percent of all U.S. firms, small businesses are very important.

And, after their own equity, banks are the most important source of external financing for these small businesses. So, U.S. small businesses are important and banks are important to U.S. small businesses.

However, there's a lot of gaps in our knowledge, so that, you know, I think, Neil was saying earlier today, on the community bankers, the industry is constantly evolving. There's a lot of emerging topics, so we want to be on top of that, in relation to small business lending.

And, a lot of small business lending that banks undertake were not actually captured in regulatory reports. So, we try our best to -

- tto collect data that, you know, is clean, but it's not always entirely in line with what banks are actually doing themselves, and I'll talk a little bit more about that, later today.

So, our goal with the survey is to first close gaps in our knowledge and do -- do our best in doing that, and second, with the collected data, to be able to document the contributions of banks to the U.S. economy, through their small business lending activities.

Next slide, please. Okay. So what topics are going to be in SBLS 2022? There's basically four sections, so three qualitative sections. By qualitative, we mean like yes/no answers, multiple choice, basically, pretty simple -- easy to answer questions that cover a lot of -- a lot ground.

So, for example, we'll have a section on your general small business lending, loan approval, how are loans made, the hierarchy, who makes the decisions, the underwriting processes, what gets into that decision-making process, the use of FinTech, which is a new topic.

We'll also have a section on markets in competition. So, you know, where do you lend, you know, and this is more than just the CRA assessment area, and, also, who are your competitors, who do you think of as your own competitors in your market?

And, then, lastly, we'll have a section with -- with some small topic areas on the coronavirus pandemic response, SBA lending, the selling of small business loans, and those are all new topics.

And, then our last and final section is the quantitative section that asks questions on your bank's volume of small business loan dollars that may not be captured on -- on the Call Report, and again, I'll talk about that in a -- in a little bit more. Next slide, please.

So, what is unique about the SBLS? So, in the SBLS, as I said, it's a nationally-represented survey. That means we can make definitive statements that -- that we are confident about, about banks and their small business lending activities.

So, in the SBLS, questions evolve from each collection, so we can change things up to reflect the questions of interest today, and because it's nationally-representative, then it's more authoritative.

So, we have confidence in -- in what we're saying, so it's not a convenient sample. It’s not like the ones that I review in the -- in Amazon ratings. So -- which is informative, but not necessarily definitive. So, this is a nationally-representative survey.

It's more comprehensive than, maybe, other surveys that your bank might participate in that might say, ask about your terms or rates that you charge, you know, that standard set of questions, and is helpful, but is not very comprehensive.

So, the SBLS is, both, more authoritative and more comprehensive. And, one other unique feature is that banks self-define their small business lending.

So, unlike mortgage lending, where, you know, you got the inputs in and you got the mortgage out, small business lending really is very different from small business to small business.

And the banks in this space, both, community banks and large banks, serve a lot of different very diverse small businesses. So bigger ones, smaller ones, and that's not captured, if we just use standard regulatory thresholds.

So, for example, you can think, you know, you can use $1 million , as a loan size, as a threshold to say it's a small business loan, but a loan that's $1.1 million is also a small -- could be a small business loan.

In our qualitative questions we let

the banks kind of say, you know, this is our definition of small business lending and this is what we do.

Another aspect that's different is that, in our quantitative questions we are going to do more than what's covered in the Call Report. So, for -- for example, we're going to better-distinguish what is lending to businesses and what's lending to small businesses.

So, you can have small loans that are going to larger businesses, but you could have larger loans that are going to small businesses that maybe were not captured in what we can see from the Call Report.

And there's also other lending, for example, lending for business purposes that are collateralized by your primary residence. So, on the Call Report that would be under residential lending, but really, it's actually small business lending that banks might be conducting.

So, there are a lot of ways that we can fill in gaps with this survey. Next slide, please. Okay. So, a lot of times, when I speak to bankers, they have questions about, hey, can you just give me an example of a question?

So here is an example of a qualitative question, and this one's actually much more complex than questions that you might see in the survey and, which might be yes or no or multiple choice.

This is a matrix, but I think if -- if you have a person in a bank, who's really knowledgeable in this area, they can answer it pretty quickly.

So, for example, the question here is, okay, in what stages of the small business loan process does your bank use, or plan to use FinTech?

Include usage, or planned usage, of both in-house technology, or through interactions with outside FinTech providers, and select all that apply, per small business loan stage.

So, you see, on the left-hand side, these are all -- that column, here on the left-hand side, these are all stages in the small business loan process that we worked out with banks.

So last year, in 2021, we met up with 46 banks of all different sizes, all across the U.S., and we went through every single question, every single question options, with bankers, to make sure it was really comprehensive to what they understood what their process to be.

So, for example, here, we're asking, okay, in the small business loan process, you know, do you use FinTech to identify potential borrowers, to intake the loan application, to process the application, like collect documents, to make underwriting decisions, all the way to like loan funding, closing, and lastly that repayment or portfolio analytics. Right? So those are the kind of things that some banks are using FinTech for.

A lot of banks are interested in FinTech, whether they have the FinTech in place, or not, people are talking about this, so when -- when it's time to replace their legacy infrastructure, they kind of know what they want.

They -- they will know what others in the industry -- industry are doing, so people have a lot of interest, during testing, in this question.

So, if you go across the columns, then you would say, hey my bank is -- we're just talking about it, we're actually testing something we're actually using, we're not talking about it.

Wherever you're at, there's no right or wrong answer, this is just where your bank is at and it just will help us understand, okay, where are banks now, at this moment in time, in their FinTech usage? So, this is an example of a qualitative question, which I think, would be helpful to -- to have some knowledge on.

Next slide, please. Okay. So what is an example of a quantitative question? So I'll start by giving an example from SBLS 2016, a question that we asked there in our resulting analysis and how that question's being updated for 2022.

So, in 2016, we asked banks that had $1 billion or more in assets, basically, larger community banks all the way up to large banks, hey, could you break down for us your C&I loans, by both loan size and firm size?

So basically, for C&I loans that are less than $1 million , or greater than $1 million , then we're asking -- we asked the banks to now break that up by the firm that received these loan dollars. So, were the firms more or less than $10 million in gross annual revenue?

And we used that $1 million cutoff, because that's what's collected in Call Reports and that's what's commonly used, as a measure for small business lending, C&I loans of less than $1 million at origination.

And, because we're able to get information on the firm size, you can say -- we could say, make the statement that, for banks of $1 billion to $10 billion in assets, basically, larger community banks that, on net, that, if we rely on the Call Report proxy, of loans of $1 million at origination, as a small business lending measure, then there will be a 23 percent net understatement of these banks' small business lending dollars.

So, there's some overstatement with this proxy, so for example, some small loans are going to larger businesses, but there's a lot of loans greater than $1 million that are also going to small businesses.

So, on net, about a quarter of these size banks, small business lending could be understated, if you relied on this proxy. So, we thought that was useful to document.

And then, in 2022, we're going to refine this question even more, so we'll have finer buckets for loan size, not just $1 million , or over $1 million , but also, $1 to $5 million -- $5 to $10 million – and $10 million and above.

You can think that a loan of $2 million could also become a small business, right? And then, we'll have finer buckets for gross annual revenue.

So not just what is $10 million or less, but $1 to $5 million and $5 to $10 million. So, you know, because different banks are probably serving the businesses of different sizes.

Okay. Next slide, please. Okay. So, when is the survey going to happen? The survey, actually, the ball is starting to roll today, so May 3rd, a joint letter is coming out from the Acting Chairman of FDIC and the Director of the U.S. Census Bureau to about 2,000 banks announcing their selection into the survey.

So, a letter is coming out, via snail mail, and also, an associated email from the address that you see on the slide. This is just to let banks know, hey, we are asking you to participate.

And, then, on June 14th, the survey officially launches. So, you'll receive -- if you're at -- select -- if your bank was selected, you'll receive another letter and that letter, again, will be from the Chairman and the Census Director that includes a web portal link.

So, a Census web portal link and a unique authentication code for your bank, so to get access into the survey and, also, to share survey access with bank staff.

And, so the due date for the survey census, we'll say it's July 19, but really, you can request extensions all the way up until the end of the year, so there's about six-and-a-half months that your banks have to answer this survey.

So next slide, please. Okay. Just a sampling notes. So which banks are -- is Census going to be drawing this 2,000 -- these 2,000 banks or more, and have drawn these 2,000 banks from?

So basically, there's 4,800 banks that are FDIC-insured, with actual domestic offices, branches, loan production offices, in the domestic U.S. that actually make loans and this is banks that are also supervised by the -- the FRB and OCC, in addition to the -- to the FDIC.

And so there's going to be, of these 2,000, over 300 banks that have $3 billion in assets and all those banks will be asked to participate. So, if you're a large community banker, your bank will definitely be asked to participate.

And then there's going to be a random sample of 1,600 banks that have assets of $3 billion or less, so that's about 4,500 banks, more than one out of six -- oh, I'm sorry, one out of three will be asked to participate. So, 1,600 banks that are $3 billion or less in assets, will be asked to participate.

Census chooses those banks. The identity of those banks are not shared with the FDIC, but you're free to share with others, if your bank was selected. So just a sampling note.

Next slide, please. Okay. So what does the FDIC want bankers to do? Basically, we would very, very much appreciate your response to the survey. So, if your bank was selected, we really want to make sure that community banks are represented -- represented.

So, this survey is nationally-representative, it's going to all sized banks, but we want to make sure that, whatever size bank it is that we want to make sure that perspective is represented.

And, the only way to do that is to get as many answers, as possible, then we can say --

that way, we can say with confidence, this is how community banks do -- do small business lending, and this -- these are the processes that they do -- and we can say that with confidence. Okay?

And the bankers here, today, they're leaders in their community, but they're also leaders amongst community banks, so if other bankers ask you, hey, what is this, please say it's a legitimate FDIC project and just be, you know, if you're willing to encourage other banks to respond, as well, just so that we can have as best responses, as possible, to say something about what community banks do for the sector.

And, lastly, if you could designate a staff person to coordinate survey response, it would probably be super -- it would be super, super helpful and just figure out who should answer what questions. That'll make it a lot easier for your bank. Okay.

Next slide, please. And that's -- this is going to be my last slide. So, if your bank has any questions, we really encourage you to register for our meeting for bankers. So basically, starting next week and the following week, we have four different one-hour sessions that bankers can sign up for to ask their questions directly.

A lot of times it's a lot easier to just verbalize your questions than have to Email it out, so this is an opportunity for you to do that, and you can sign up for as many, as possible, you can send multiple staff members. So please, R.S.V.P. for this. It will be in this -- this is hyperlinked in this slide deck.

You can't make that, we have an FDIC website dedicated to the SBLS, you can find the survey there, the FAQs and, also, if you want to ask -- ask a question to me, directly, you can send it to this mailbox, right here, sbls@fdic.gov, and I would love to answer your question.

So next -- next and last slide. So,

we really appreciate so much your time today and would love if you would participate, so we can get the community bank responses and perspectives into our survey. Thank you so much.

MS. EBERLEY: Okay. Thank you so much, Phil and Yan. Next, we're going to provide the Committee with an update on a few supervision and policy matters.

We have a number of individuals from the Division of Risk Management Supervision. Rae-Ann Miller, Senior Deputy Director of Supervisory Examinations, will discuss Crypto Assets.

Bobby Bean, Deputy Director of Capital Markets and Accounting Policy, will discuss the FDIC's climate change initiative. Martin Henning, Deputy Director of Operational Risk, will provide an update on Cyber Security.

And, Shannon Beattie, Chief Accountant, will provide an update on the current expected credit losses model, or CECL, implementation. Also, from our Division of Depositor and Consumer Protection, we have Chris Finnegan, Senior Deputy Director of Compliance and CRA Examinations, and Tara Oxley, Associate Director of Compliance and CRA Examinations.

And Chris and Tara are going to talk about the spring 2022 Consumer Compliance Supervisory Highlights publication that several of you mentioned this morning.

So, I think we've got a nice group of topics here that were all things that were mentioned in the earlier discussion this morning, so we'll go ahead and jump right in. I'll go ahead and turn it over to Rae-Ann.

MS. MILLER: Thanks very much, Doreen. And, I'm here today to talk a little bit about our activities, at the FDIC, related to crypto activities and, more specifically -- oh, can you advance the slide, please?

More significantly, we issued on April 7th, a Financial Institution Letter to our supervised institutions that is intended to address our supervised institutions engagement in crypto-related activities.

And, as you know, there's no standard way for us to know about these types of activities, so we felt that this was important to reach out to our institutions, so that we can engage in a dialogue with them.

And the reason why we did that is we were seeing some interest and some active cases, and we are concerned about crypto-related activities and the safety and soundness issues related to them, as well as, consumer protection concerns and, ultimately, risks to the financially stability, itself.

And, some of you, I -- I listened to most of the remarks today, and some of you have raised some of these same concerns. Another thing that we point out in our financial institution letter is that, these areas evolve very rapidly the structure of the activities, just even the definitions and what's -- what we think certain things mean, will -- sometimes changes on us.

And what we have found in this -- in this area and in other emerging areas, as well, is that the best way to get a handle on it is really sort of a grassroots' effort, if you will, a bottom-up approach where we look at each activity individually.

So please, advance the slide for me. So, the Financial Institution Letter applies to those institutions that we supervise and it's asking the supervised entities to let us know of any current, or planned, activity related to crypto -- the crypto space.

And, we identify -- we define it in a -- in a footnote pretty broadly, based on a bank's activities and we would, once the bank notifies us, we would ask the institution to provide us information that would allow us to engage with the institution, regarding risks and -- and other issues, related to those activities.

And, we will be providing feedback, as appropriate, to those individual institutions, and we've already engaged in discussions with, I would call, you know, a handful, two handfuls, maybe, of the -- of institutions.

Another thing that the FIL talks about is, you know, general legal implications. You know, we -- we’ve always looked at activities, at least, our starting point, the lens that we look through is the Safety and Soundness Standards.

And that's, for us, at the FDIC, is -- is in Appendix A and B, of Part 364, and -- and that was promulgated, pursuant to Section 39 of the FDI Act.

So please, advance the slide. So, we talk a little bit in the Financial Institution Letter, tried to tell the public what our concerns are, and they're listed here, at least for the Safety and Soundness aspect.

There are some ownership issues,

clearly, crypto assets and maintenance of keys and changes in status of these assets. You've heard of so-called forks and drops and things like that, are certainly a new issue that we really want to understand.

And, then, anti-money laundering, countering of financial terrorism, this is sort of the use of these types of activities for elicit purposes, certainly we've heard a number of -- of those stories. And, then, the next item is information technology and information security implications.

And, I heard Marnie talking about her concerns, about privacy and with new technologies, you know, how do we ensure privacy and security of our customers, and certainly, you've seen operational risk related to these activities outside of the banking system, of course, with major heists of crypto assets.

I can't say it's every week, but certainly, frequently I've been reading about these heists and they often happen, given the operational risks, between the different crypto assets, the so-called bridges between these blockchains.

And then, we are concerned about credit risk exposure and county -- counterparty risks, there are settlement mismatches in these activities that trade 24/7 internationally, certainly, with the traditional financial system.

So, we're certainly concerned about -- about that and, as well as, some of these -- some of these assets are backed by certain other assets and understanding what the credit risk is -- is more than just a simple, you know, looking at what's -- what the value is, today.

And, then, finally, market and liquidity risk, we -- we, you know, we see these prices are certainly very volatile and there's no identified separate liquidity support for many of these assets, unlike some of the asset classes or traditional financial players in our financial system.

So, we can move to the next slide and we're just talking very briefly, here, about our concerns about financial stability, in general, systemic risks that could occur.

We have, in our financial system, an interconnected structure and, certainly, items touch the traditional banking system and, as you know, these -- many of these activities are very popular with retail consumers and, you know, we are concerned that disruptions could result in things like runs on the assets backing these -- these assets. And then, you know, the traditional run cycle is runs, contagions, and then, you know, ultimately, fire sales and we certainly had things like this happen in our history, before, so that would be a concern.

And then, I talked a little bit about some IT risks, but operational failures could also be a vector of transmission to traditional financial institutions.

Ultimately, people have cash backing a lot of crypto wallets and things like that, and should there be an operational hiccup in those, we are certainly concerned.

Please, advance the slide. And, so another area, it's certainly my -- my friend, Christopher Finnegan's expertise, but in Consumer Protection, we are very concerned about consumer confusion, particularly, with how would a customer know the difference between crypto assets at a -- at -- if they engage with their bank with crypto assets versus more traditional bank assets, say deposits, so that is certainly a concern about understanding the role of the bank, in these activities and what is or is not a traditional banking product.

And then, also, the management of consumer protection requirements. These are very fast-moving technologies. You know, they're -- they're meant to be international.

They're meant to be quick, they're

meant to be anonymous in many instances, and how will institutions that choose to get involved in this, how will they ensure that consumers are protected, along these new rails.

So, finally, let's just go to the next slide. This is just some -- some links for you to our FIL itself, and to the sort of underpinning regulation I mentioned before, which is Part 364 and Section 39 of the Federal Deposit Insurance Act.

So, with that, I'm done. Doreen, are we pausing for questions, or are we just going straight through?

MS. EBERLEY: Oh, let's see if there -- I don't see any hands raised, at the moment, but let's give folks a chance, just in case there is a question.

(Pause.)

MS. EBERLEY: Okay. Not seeing any, Rae-Ann, so we will go ahead and move over to Bobby.

MR. BEAN: Thank you. This -- this afternoon, I'd like to speak briefly about the FDIC's initiatives, with respect to the financial risk associated with climate change.

The financial risk associated with climate change may pose safe -- significant safety and soundness risk to banking organizations, as well, as financial stability risk.

Understanding and addressing these risks is a top priority for the FDIC. To that end, the FDIC is working to develop a fuller, more formal and dedicated corporate -- corporate-wide understanding of climate-related financial risks.

We will continue to expand these efforts through our thoughtful and measured approach that emphasizes risk-based assessments and collaboration with our fellow banking agencies and industry. As initial steps, the FDIC has established an inter-divisional, interdisciplinary working group on climate-related financial risks.

In addition, we have joined the Network of Central Banks and Supervisors for Greening the Financial System, the NGFS, which will foster collaboration and share best practices in addressing climate-related financial risk on a global basis.

Further, the FDIC is actively participating in the FSOC's climate-related Financial Risk Committee and we are working closely with the Office of the Comptroller of the Currency and the Federal Reserve Board, to develop a consistent approach, with respect to climate-related financial risks.

At the end of March, the FDIC issued a request for comment on a proposed statement of principles for climate-related financial risk management for large financial institutions.

These principles are designed to provide a high-level framework for the safe and sound management of exposures to climate-related financial risk.

The request for comment was published in the Federal Registrar, on April 4th, with a 60-day comment period, closing on June 3rd, 2022. The proposed principles are substantively similar to those issued by the OCC, in December, of 2021.

We hope that this request for comment will start a meaningful conversation with the Industry and, if the OCC's response is any indication, we think, we will get a -- a meaningful conversation.

While the FDIC's comment period will not end for some time, it -- I -- it is important to note that the OCC has received over 12,000 comments from more than 29,000 individuals and organizations, including 98 comment letters, that -- that -- or unique comment letters, each that were represented by several thousand individuals, or organizations. So, we expect a similar magnitude of comments.

While the FDIC views climate-related financial risk as potentially-impacting all financial institutions, regardless of asset size, the draft principles are primarily intended for large financial institutions with over $100 billion -- excuse me -- in total consolidated assets.

Notwithstanding, we believe that these principles can also support the efforts of community banks to address climate-related financial risk.

The principles take a risk-based approach and are consistent with existing risk management framework, as described in our FDIC Rules and Regulations. We will take the commenter feedback into consideration, when finalizing the proposed principles.

In addition to finalizing proposed principles, we anticipate in issuing additional guidance in the near term, especially guidance related to the governance of climate-related financial risk; that is expectations of boards and directors -- of boards and directors and senior management.

We are mindful that the one-size-fits-all mantra does not work in this respect and we believe that the effective risk management practices should be appropriate -- should be appropriately tailored to the size of the institution and the nature, scope and risk of an institution's activities.

The FDIC will appropriately-tailor any future supervisory expectation to reflect differences in financial institutions' circumstances, such as complexity of operations and business models.

While it is important to consider climate-related financial risks, as with all risk assessments, the FDIC encourages financial institutions to do so, in a matters that -- in a manner that allows banks to continue to prudently manage the financial needs of their communities.

With that, Doreen, I -- I will -- I'll turn it over to you.

MS. EBERLEY: Okay. Thank you. We will pause just a moment and see if there are any questions or comments?

(Pause.)

MS. EBERLEY: Okay. I'm not seeing any and I, also, did want to recognize the Acting Comptroller, Michael Hsu, has joined the call. Welcome, sir. And we will --

COMPTROLLER HSU: Thanks for your --

MS. EBERLEY: -- take --

(Simultaneous speaking.)

COMPTROLLER HSU: -- sorry for being late.

MS. EBERLEY: Oh. No, thank you for joining. Thank you for joining. And, I'll turn it over to Martin Henning, for cybersecurity.

MR. HENNING: Great. Thank you, Doreen, and good afternoon, everybody. It's good to -- to see some old faces. And welcome, to the new members to the Committee. I wanted to brief you on three things this afternoon, with regard to cybersecurity.

Significant cybersecurity threats, as we see them, a couple of them, they won't be surprising to you. Incident reporting changes that are -- are relatively new.

We talked about them at the last meeting, but now our Board has acted and we've implemented those -- those incident reporting -- that incident reporting rule.

And then, lastly, talk to you about controls that we're observing, as effective in defending against ransomware and many other threats. So, why don't we move to the next slide?

Identifying threats is usually a useful place to start, when I speak about cybersecurity, and the two top threats are geopolitical, relative to the war in Ukraine, and ransomware, at least -- at least from my advantage point.

The -- the two sites I've got up here, are really great sources of information and -- and are getting, you know, better and better. They're both run by the Cybersecurity and Infrastructure Security Agency, CISA.

CISA's published significant information about the threat related to the events in Ukraine and kept that information updated.

There's new material out there all the time and not just about the threats, but about the areas of an environment, an IT environment that are most at-risk relevant, related to those threats and what actions companies can take to -- to mitigate those risks.

They've also held conference calls throughout, since -- since really December and maybe even late-November, on the geopolitical threats.

And that -- that -- so those -- those

two Websites and, again, on the geopolitical, Shield's Up, is -- is the name that they've come up with.

With ransomware, if you can remember, stopramsomware.gov, just again, really good sources. That's where we're putting everything that we think will be useful.

The -- the only other entity I would mention is FS-ISAC, continues to be an excellent source of threat information, every time we wonder, whether information is getting out to community banks and cyber security threats.

We ask the team to look to see, whether FS-ISAC is published and they sure have. So, you -- you can sign up directly to the CISA websites to get information, you can also join FS-ISAC, if you're not members already, but most of our banks are.

Relative to them, and I'm going to talk about ransomware, in a second, but relative to the geopolitical threat, we have not seen material attacks on U.S. -- U.S.-based companies, as a result.

But, the most recent thing I did see was a summarization by Microsoft, a report they put out last week, on April 27th, that talks about what's been observed in Eastern Europe.

Microsoft saw at least six separate Russia-aligned nations state actors launched more than 237 operations against Ukraine, including destructive attacks that are ongoing and threaten civilian welfare.

The destructive attacks Microsoft observed numbered close to 40, targeting -- targeting hundreds of systems. So, I -- I think, you know, that CISA and -- and others are really looking at what's happening in Ukraine, to be as prepared, as we can, for what might happen here.

Other attacks that aren't as destructive certainly seem to be motivated by espionage and intelligence goals. So thankfully, again, we have not seen a similar scale of attacks on U.S. entities.

We understand that there have been lower-level cyber activities, such as a lot of scanning of U.S. entities, for vulnerabilities, but the best advice I think in this case, is to not let our shields down, continuing to be vigilant, as we give our cyber employees a rest, if we can.

That's something I've certainly heard is that people are -- are tired from, sort of, being on the -- on -- on the walls looking for -- for bad things happening in IT environments.

Regarding the second threat, again, I think CISA's website is the best and, why don't we flip to the next slide and I'll talk about the -- the second topic, which is incident notification.

We -- our Board did act and approve a -- a -- a notification rule. In fact, so did the OCC and the Federal Reserve, and we just published a Financial Institutional Letter that describes how banks can comply with that rule, and it's -- it's a very simple rule and it's just a -- enotification rule, it's not reporting.

And, at the -- the FDIC's Financial Institution Letter essentially said that, you can contact your case manager. We communicate through the case manager, as to each bank we supervised.

If you're being examined at the moment, you can tell your examination team if you experience an incident that's really significant and rises to the level of this rule, or you can email, incidents@FDIC.gov.

So very simple, very straightforward, and again, I emphasized this at the last meeting, but the design of the rule is to only ensure that we're notified of the most severe incidents, like a ransomware attack that effects the services you provide to your customers.

We held an ask the regulator session last week, or a couple of weeks ago, with our colleagues at the OCC and the Federal Reserve and we had over 4,000 participants in that, so I'm glad to see folks just learning about the new rule and -- and so that they can let us know,in the rare case, frankly, that you suffer and -- and knock on wood, I hope nobody in this group suffers an incident that -- that high of threshold.

Secondly, I just wanted to mention, in the top incident notification there is -- has been -- a Strengthening American Cyber Security Act of 2022 that the -- the Senate passed.

But, a piece of that Act, called the Cyber Incident Reporting for Critical Infrastructure Act of 2022, was passed in a broad appropriations act by the President -- and -- and signed by the President on March 15th.

It requires, among other things that, entities that own or operate critical infrastructure report cyber incidents and ransom payments within specified time frames.

The Cyber Security and Critical Infrastructure Security Agency identifies financial services, as a -- a critical sector, as you'd imagine.

But, there's time that's needed for CISA, as it's known to write the regulations that will specify the law's applicability, within sectors, so that may not be something that has a direct bearing on your companies, but something that's certainly talked about, with regard to -- to incident notification.

And, it's a great place for this information to go, because CISA has analysts that can look at the -- what happened and turns out, as I said at the beginning, really good information to help you defend, and the people that -- that help you maintain your cybersecurity defend against these -- these kinds of threats.

If we can, move to the fourth slide. I wanted to tell you about a material effort we've undertaken. Not surprising. In -- in the ransomware area, the horizontal review, a review where we go deeper on a particular topic and across a -- a -- a -- a set of institutions. We searched in our records, over a two-year time frame, for and -- and some records at other agencies, for any ransomware attacks, at FDIC-supervised institutions.

We identified 36 ransomware attacks of interest, very small set, thankfully, and we just dug down in and talked to the bankers, looked at the forensic reports, really to learn what we might be able to learn, further, about how these attacks occur.

But, particularly to learn, when companies were successful, defending against ransomware attacks, what controls made the difference?

You can go out to sites and contract with folks that will give you lots of advice about a lot of controls, but what made the difference?

Why don't we go to the next slide? We

rated the -- the incidents, 36, in one of three categories, high, moderate, and low, and just a quick readout.

Thirty-three percent of the incidents were in the moderate and low category, where, you know, you might say the -- the -- the bank was able to defend, or even the service provider in a few cases that effected the bank was able to defend.

Why don't we go to the next slide? And this is my final slide, the next one after this. We found some controls in the cases, in those 33 percent, where companies were really successful, didn't -- the -- the -- the attack really didn't affect their customers.

There were key controls, you can see on the left-hand side that seem to be the pivotal control and -- in -- in -- in defending -- in -- in -- in the remaining 66 percent the controls on the right, probably would've been effective, given the way the perpetrator got in, but -- but

-- but weren't there, didn't exist.

And, I think, you know, you read through these, a lot of this is technical, you might notice multi-factorauthentication on the right-hand column that might resonate with you.

What we're going to do next is really see if we can adjust our examination procedures and dig into the -- the I -- in the IT exams, in these areas.

And, see if we can give, through our examinations, better feedback, if and when we see controls that are -- are lacking or unsatisfactory in -- in these areas.

And, have the basis of -- of this horizontal review to -- to -- to root and -- and -- and provide a foundation for any advice, any -- any recommendations we'll give to banks. So that's a -- that's a quick overview of cybersecurity from -- from my seat.

MS. EBERLEY: Thank you, Martin, and we'll pause again, here, just for a second and see if we've got any questions?

(Pause.)

MS. EBERLEY: Okay. I'm not seeing any. Thank you, and we will move on to Shannon.

MS. BEATTIE: Thank you, Doreen. Good afternoon. I'm Shannon Beattie, Chief Accountant at the FDIC, and my focus today is to briefly provide an update on the current expected credit losses or CECL methodology, to discuss implementation, and to share available resources.

We are preparing for the full CECL implementation, in accordance with FASB's Accounting Standards Codification, or ASC Topic 326.

As you know, we've been discussing CECL implementation for several years. I thought it would be helpful to provide an overview and contrast the incurred loss methodology with the CECL Methodology.

So, let's move on to the overview slide and address allocating for credit losses under the two methodologies. It is important to remember that the timing of when an estimate of a credit loss is recognized changes under CECL.

Allowances under the incurred loss methodology are recognized when a loss is probable. Under CECL, an estimate of the total expected lifetime credit losses is recognized at the time of origination, and then adjusted over the life of the asset, as fast as circumstances change.

For example, in the period when a group of loans is originated, an institution will record an amount for the expected lifetime credit losses on those originated loans.

Conceptually, this means that the total amount of net charge-offs on the loans should not change under the incurred and CECL Methodologies, instead, it's the timing of the adjustments to the allowance to absorb the net charge-off that changes.

The timing of the actual charge-off of

an asset is the same under, both, the incurred loss and CECL Methodologies. That is, the charge-off is recognized when an amount is deemed uncollectible.

Another change with CECL is, how much credit loss is recognized to the allocation to the allowance. Under the incurred loss methodology, the amount allocated to the allowance represents an establishment of the credit loss that is probable and incurred.

Under CECL, the allocation for lifetime expected credit losses results in the net amount expected to be collected, which is presented on the balance sheet.

In other words, the net amounts on the balance sheet will reflect the amortized costs after expected credit losses. This is in contrast to the incurred loss methodology, where credit loss recognized has already been incurred.

Finally, CECL changes how credit loss amount is determined. The rincurred loss methodology incorporates past events and current conditions.

In contrast, the CECL methodology not only requires that past events and current conditions be considered, but also has the added requirement, estimated expected credit losses, under CECL, also include reasonable and supportable forecasts.

On the next slide, you will notice the current effective dates for CECL. Approximately 330 institutions have implemented CECL, at this point.

Most institutions currently using the incurred loss methodology will adopt CECL, in 2023. This means that 2022 will be a busy year for the over-4,000 institutions that have not, yet, implemented CECL.

On February 2nd, 2022, the FASB Board voted to retain the existing effect date of CECL, for non-public business entities, therefore, the effective dates on this slide remain unchanged.

Advancing to the next slide, we'll see that resources are available on the FDIC's Banker Resource Center, and this includes a 2019 Interagency Webinar, regarding CECL and focused on the Weighted-Average Remaining Maturity, or WARM Method.

Bankers may access this recording, by registering to view the webcast. This resource is particularly helpful for institutions with less-complex asset pools.

The last slide contains additional CECL resources available on FDIC's Banker Resource Center, at fdic.gov, with links to supervisory resources, webcasts, and teleconferences, including the Interagency Policy Statement on Allowance and Interagency Frequently Asked Questions.

Other Interagency documents that may be useful when implementing CECL, includes supervisory guidance on model risk management and guidance for managing third-party risks.

Finally, I would like to take a moment to acknowledge that FASB issued an Accounting Standards Update, or ASU, that corresponds with CECL implementation.

The ASU amended ASC Topic 326, the CECL Standard. This ASU will eliminate the recognition and measurement accounting guidance for trouble debt restructuring, or TDRs, while enhancing disclosure requirements for certain loan refinancings and restructurings, by creditors, when a borrower is experiencing financial difficulty.

For all institutions that have implemented CECL, the ASU is effective for fiscal years, beginning after December 15, 2022. For institutions that have not yet adopted CECL, the effective date for the ASU would be the same as the CECL effective date.

The recent Financial Institution Letter on first quarter Call Reports, which is FIL 17-2022, includes more information on this

ASU and the elimination of TDRs.

That concludes my prepared remarks. Thank you for your attention.

MS. EBERLEY: Thank you, Shannon. We'll pause, again, here for a minute and see if we've got any questions?

(Pause.)

MS. EBERLEY: Okay. I'm not seeing any, Shannon. Thank you. And we'll move on now to Chris and Tara.

MR. FINNEGAN: Okay. Thanks, Doreen. And, good afternoon, everybody. I just want to start out by saying -- I just want to say, thanks for the -- the great dialogue today.

It was -- it was really great to hear from -- from all -- from -- from all the members today, particularly, about some of the consumer compliance issues that you brought up, you know, given that that -- that is what -- what I do for a living and -- and it's very important for us to hear that feedback, directly.

So, I just want to, again, say thank you for -- for sharing your insights on that, and several of the items, or -- or the issues that you brought up today and maybe a couple of other ones, we're going to -- we're going to cover in our 10 to 15 minutes that we're going to cover some consumer compliance issues with you.

If we can, go to the next slide, please? One of the -- the -- our main point of the -- of the presentation today is to talk about our compliance supervisory highlights that we published, back at the end of March.

It was -- it was -- I was really happy to hear several of you mention this publication earlier. Because, you know, one of the main reasons we put that out, is to -- to let the industry know some of the issues that we're identifying from the consumer protection space and this, in particular, is for 2021.

And, you know, I -- I was glad to hear that -- that many of you had to -- had -- had seen this publication and was actually using what's in there.

Because, I'm going to go over all the different things that -- that we include, but it -- but it's -- it's not just to identify that -- the areas that we -- we have violations, or something like that, but we also want to provide some, maybe, some ideas on ways to mitigate some of the -- the risks that we see, from a consumer protection.

So -- and it -- this -- this is a publication that we've been doing, since 2019, so this is our fourth version of it, fourth publication, and they're all available on our website, FDIC.gov.

So, if you -- you can -- or -- or -- or you Google it or -- or -- or, you know, it'll come up, if you go right to our website there's -- there's -- there's space for it and it includes all the previous editions and, you know, this particular one -- oh -- well, like I said, was issued at the end of -- of March and then, all the previous editions are out there, as well.

So, if you haven't had a chance to -- to look at it, please do, because there's a lot of -- a lot of good information in there and we're going to go over a -- a -- a few of the things that were in there, today.

So, if you go over to the next slide, please? And, this is -- these are the things that are in there. We -- we include overall, you know, what our, as far as what the -- the ratings are, how's our -- how our bank's doing with consumer compliance, you know, for -- for 2021.

As I mentioned, we include the -- the violations, you know, the most frequently-sited violations, and I'm going to go over those here in a second, and you know any other kind of, you know, more of this -- the more significant consumer compliance observations that we had, during the year.

But, it, also, it's not just that,

like I mentioned earlier, we -- we also include some areas that are updates on -- on regulatory and other developments that -- that we think bankers might be interested in, from the consumer protection perspective and we put in resources in there that we think that also might be helpful for you, as you -- as you run your institution.

All right. In 2021, we added a -- a section on consumer complaints trends and it's -- it's towards the back of the document, but I think it has a lot of good information on a summary of all the -- the complaints we get from consumers, you know, what the issues are -- you -- you -- you know.

But, I -- I think, if we break it down by the different regulations what -- what the maybe the product and services was that -- that -- that we had identified as -- as -- as far as an analysis of our complaints for 2021.

And, you know, again, I think that's a good thing for -- for people to -- to look at to -- to see what -- what consumers may have concerns over, you know, just like we recommend to our examiners when -- when they are looking at the -- doing compliance exams to look at the consumer complaints to see if there might be some issues there.

And we also recommend our bankers to -- to be aware of whatever consumer complaints that you're getting, because that may -- may show you an indication of something that may be going on with a product or service that you have and that you may want to address. So, we added that this year, so you may want to take a look at that.

Next slide, please. As I mentioned, we do provide an overall summary of, you know, the -- how our -- our banks are -- are doing with consumer compliance and CRA.

As you can see on this slide, here, the vast majority of our institutions that we regulate, as the primary federal regulator, are doing, a satisfactory or better for compliance, 99 percent and, as well as for CRA, so we're doing a good job with -- with -- with compliance.

We -- we do identify violations, and so in this part of this publication we -- we put in what the most frequently cited violations are. They're very similar to what we've seen in previous years, Truth in Lending, the Flood Disaster Protection Act, Electronic Funds Transfer, Truth in Savings and RESPA, were the primarily ones that -- that we cited, about 80 percent of our violations were in one of those regulations there.

We did issue -- there's some information in there about enforcement actions that we had, in 2021, formal. Most of those were civil money penalties, or with the informal actions with -- with MOU's, dealing with maybe some institutions that needed to improve their compliance management systems, so that -- that's a summary of those.

And – and, we -- we also put in there

the amount of restitution that we had identified, as -- as part of our exam process, and it was around 49,000 to 50,000 consumers were -- were identified that -- that had harm, due to violations for restitution for about $4.5 million in -- in 2021, as part of our exam function, so that's all just -- but, no -- that's all included in that -- in that document.

And so now what we're going to do, what Tara and I thought we would -- would cover, and several of these issues were -- were some that that you all -- that several bankers brought up today that were part of this -- this document, so some of them are going to deal with some of the fraud issues in -- in Regulation E, Electronic Funds Transfer, we're going to go over a little bit about overdrafts and represent that issue that the -- that several of you mentioned today.

But I -- I just want to point out that's not all the issues that -- that we talk about in this -- in this publication, there are -- there are other things in there, such as Fair Lending that we're not going to go over today.

So again, I encourage you to take a look at this document, or this publication, when you get a chance, because it does have some good insights on not all the issues we're going to talk about today, but -- but others, as well, including Fair Lending that I encourage you to take a look at.

So, with that, I'm going to turn it over to Tara, who's going to go over some of the specific issues that -- that we covered in our Supervisory Highlights. So, Tara, all yours.

MS. OXLEY: Great. Thank you, Chris. And I look forward to discussing some of the consumer compliance issues the FDIC saw in 2021. I'm first going to start with the Electronic Fund Transfers Act.

In 2021, the FDIC noted issues involving consumers being targeted for fraud, and in one instance, a third-party service provider managed a financial institution's deposit accounts.

Consumers stated someone posing as a representative of the financial institution’s fraud department contacted them seeking account verification codes and believing that they were communicating with the third-party service provider, the consumers provided the two-factor authentication code.

It turned out, the person to whom they gave the code to was a scammer and the scammer used the account credentials to steal money from the consumers' accounts.

So in an attempt to limit its liability, the financial institution had disclosed in various account agreements that, neither, the institution, nor the third-party service provider would ever request the two-factor authentication code.

Thus, it was the institution's

understanding that they did not have any obligations to comply with Regulation E's liability protections.

The FDIC, however, did find that the financial institution's disclosures did not limit the institution's responsibilities, under Regulation E.

The FDIC also noted instances where deceived consumers provided their account credentials for fraudulent EFTs conducted through a money payment platform, such as Zelle or Venmo.

In these situations, the FDIC concluded that, both, the financial institution and the money payment platform were both held to have investigative and error resolution obligations, under Regulation E.

Next slide, please. We have found that several actions have been successful in mitigating the risk of not complying with Regulation E, as set forth on this slide.

So, for example, an institution should

consider reviewing their account agreements and disclosures to ensure they do not attempt to diminish or limit a consumer's rights under Regulation E, conduct thorough investigations of any fraud-related EFT disputes, and documenting the findings.

Educating consumers about scams. Reminding consumers to notify their financial institution, as soon as they are aware of being victim to a scam. Implementing effecting fraud detection and prevention measures, and then finally, training staff on Regulation E's requirements and assisting consumers alleging unauthorized transactions.

Next slide, please. The second issue I'm going to discuss today relates to a bank's overdraft program. Last year, the FDIC identified several financial institutions that converted their programs, from a static limit to a dynamic limit, but failed to disclose sufficient information about the change to consumers.

This practice resulted in a violation of Section 5 of the Federal Trade Commission Act, or FTC Act. Specifically, the institutions failed to disclose sufficient information about the change from a static limit to a dynamic limit.

And, in fact, some institutions did not provide any information to customers, about the change, or failed to disclose key changes, such as the replacement of the fixed amount with an overdraft limit that may change and could change as frequently as daily, use of a new overdraft limit that may be lower or higher at times than the fixed amount to which the customer had been accustomed, and suspension of the overdraft limit when it falls to zero and how such a change may result in transactions being returned unpaid.

The FDIC deemed these omissions material, as customers did not have sufficient information about the new -- new program, to understand how to avoid fees associated with an overdraft, or for transactions declined for payment.

Next slide, please. So, similar to what we provided for EFTs, we also provided a list of actions that may mitigate the risks, when implementing automated overdraft programs with dynamic -- I can't speak today -- for -- with dynamic limits.

As you can see on the slide that includes providing clear and conspicuous information to existing customers, so they have advanced notice of how the change from a fixed overdraft limit to a dynamic limit will affect them. And, this is especially important when the bank previously disclosed the amount of the fixed overdraft limit to customers.

Also, disclosing changes to overdraft limits in real-time to consumers as these vary with the opportunity for consumers to adjust their behavior.

Reviewing and revising account opening disclosures, or other communications used to inform new customers about the automated overdraft program to avoid engaging in deceptive practices.

Explaining that the dynamic limit is established based on algorithms or a set of rules that weigh various -- the numerous variables and customers behaviors.

And then, finally, training customer service and complaint processing staff to explain the features in terms of the automated overdraft program's dynamic features.

Next slide, please. And the last issue I'm going to briefly discuss today relates to the re-presentment of transactions. I know this was briefly referenced earlier today, but wanted to quickly provide some information on what specifically we have seen, relating to this issue, at the FDIC.

In 2021, the FDIC identified consumer

harm when financial institutions charged multiple NSF fees for the re-presentment of unpaid transactions.

Some disclosures and account agreements explained that one NSF fee would be charged quote “per item”, or quote “per transaction”, but these terms were not clearly defined and disclosure forms did explain that the same transaction could result in multiple NSF fees, if represented.

In several instances, we found that an institution's failure to disclose material information to customers, about re-presentment practices and fees, was deceptive.

As noted in a publication, this practice also has a risk of unfairness, if there is the likelihood of substantial injury for customers, if the injury is not reasonably avoidable and if there is no countervailing benefit to customers.

Next slide, please. The FDIC has

observed various risk-mitigating activities that financial institutions have taken to reduce potential risk of consumer harm and avoid potential violations of Section 5 of the FTC Act, these include eliminating NSF fees; declining to charge more than one NSF fee, for the same transaction; ensuring that the amount of NSF fees is disclosed and consumers understand how such fees will be imposed; reviewing customer notification practices, related to NSF transactions and the timing of fees, to provide the customer with an ability to avoid multiple fees for re-presented items;conducting a comprehensive review of policy, practice and disclosures, related to re-presentments; and then, finally, working with service providers to retain comprehensive records, so that re-presented items can be identified.

And with respect to the last bullet point, I will note that, the FDIC has been working with the core service providers on this issue, as well, as we've heard that identifying that re-presented items has been challenging in some circumstances.

So, I just wanted to note that, since I know that was something that was mentioned earlier today, as well. That is our last slide and, actually, we are perfectly on time, now, but I'll see if there's any questions?

(Pause.)

MEMBER OLDNER: Could I say something?

MS. EBERLEY: Certainly.

MEMBER OLDNER: This is Marnie. I know we didn't ask questions, as you all went along. I think if everyone is like me, we did take some notes, we did have some things we'll follow up later and look into, because all of this stuff was very relevant and I very much appreciate it. So don't think, by our silence, we weren't interested, because we're very interested in these topics. Thank you.

MS. EBERLEY: Thank you –very much.

MS. OXLEY: And honestly, I appreciated all the comments throughout the past few hours about consumer production issues. Because, I mean, every time somebody noticed this publication, or referenced the publication, I was very, very happy, so thank you.

MS. EBERLEY: All right. I don't see any other questions, so thank you very much, Chris and Tara, for that presentation. And -- and thank you to everybody, to all of our presenters and to the Committee members, for all of the insight shared today, it's really been a -- a terrific meeting.

Before we close, Acting Comptroller Hsu, would you like to make any comments?

COMPTROLLER HSU: No, other than to apologize for being late, I had some other commitments. But, I -- this -- this has been great and I look forward to -- to the next meeting.

MS. EBERLEY: Thank you so much. Okay. I will turn it over to Acting Chairman Gruenberg for some closing remarks.

CHAIRMAN GRUENBERG: Thank you, Doreen, and -- and my thanks for taking the time to -- to take part in the meeting. And, let me thank all the members of the Committee, for their participation and for hanging in there.

It's a long afternoon to do this virtually, and we are hoping to do our next meeting in the fall, in person, and I think that really does help the engagement and the -- and the -- the back and forth, so I -- I really hope circumstances permit us to do that.

And, you know, I have to say it, I don't know that I've met any of you, in person, or visa-versa, so it would be really great to get together and say hi to everybody.

Before we adjourn, I'd like to acknowledge a member of the Committee, who's term is expiring in July, of this year, Teri

Messerschmitt, the President and CEO of South Ottumwa Savings Bank, in Ottumwa, Iowa.

Teri, I would like to thank you for your willingness to serve on the Committee. We really place enormous value on it and we will be sharing with you a Letter of Appreciation and a small token of thanks, in addition, for your service and, perhaps, a memento to remember us by.

But, it just -- just to recall this, you may leave the Committee, but you're not leaving the FDIC, and we will continue to stay in touch and -- and look forward to -- to engaging with you.

So, if there are no further comments or questions from anybody, let me thank our staff for their terrific presentations today. Thank all of you, for your comments.

This -- this roundtable is the most efficient way I know of to get a -- a meaningful snapshot of what's happening to community banks across the country.

So really enormously helpful and valuable input from -- from our standpoint, and I hope we can see you, all, in person later this year.

So, thank you, all, thanks a lot. Take care. Bye-bye.

(Whereupon, the above-entitled matter went off the record at 4:50 p.m.)