Statement by FDIC Chairman Jelena McWilliams on FSOC Annual Report

Last Updated: December 3, 2020

I echo the comments thanking the staff for this significant effort on the Financial Stability Oversight Council (FSOC) 2020 Annual Report – it differs from its predecessors and with good reason.

I would note that, from the FDIC's perspective, I have been impressed with the resilience of our banking system and the way banks responded to the needs of their customers. At the very onset of the pandemic and resulting economic shutdowns, banks had to figure out how to operate in this new world with limits on physical movement, while making sure much needed liquidity was available to the businesses and customers who needed it. We all remember the 2008 crisis and the resulting credit crunch all too well.

In this regard, I am pleased to report that insured institutions have served and continue to serve as a source of strength to the economy and their communities. The just released FDIC Quarterly Banking Profile for the third quarter reflects that, overall, banks are holding up well, with strong capital and liquidity, relatively low loan delinquencies, and recovering earnings. But, as described within FSOC's Annual Report, we remain vigilant, particularly, but not exclusively, for knock-on effects in the commercial real estate (CRE) sector.

We continue to monitor with our fellow regulators a number of community and regional banks with CRE concentrations.

I would point out that the composition of the industry's CRE holdings is different today than in the last crisis. Aggregate concentrations are lower than before the 2008 crisis – particularly for acquisition, development and construction loans. There are also some subsectors that are now struggling due to the pandemic that did not warrant heightened regulatory scrutiny before the pandemic, namely hotel and leisure businesses. It is prudent to remember that even within specific subsectors, CRE is not monolithic – there are great variations based on types of property (e.g., a roadside motel versus a convention hotel) and among markets (e.g., New York versus Miami).

We continue to urge banks to work with their borrowers and confirm that they have significant flexibility to do so. We have been intently focused over the past several years through our examination program on underwriting and the risk management practices for institutions that are concentrated in CRE and will continue to do so as the effects of this pandemic unfold.

Thank you again, Mr. Secretary and FSOC staff, for an excellent report and a productive collaboration in its preparation. It has been a tremendous honor to serve on the Council alongside all of you. And thank you, Mr. Secretary, for your leadership and service to our Nation.