

Remarks to the 2021 Community Bankers Symposium

Last Updated: October 22, 2021

Thank you for your participation in this symposium. Though I wish we could have held this event in person, I am grateful to everyone who helped to organize and who participated in this event. Especially in times like these, it is critical for us to come together to celebrate the successes of our community banks and address the challenges they face.

At the FDIC, we observe in our daily work the vital role that community banks play in their local communities and in the U.S. economy overall. Based on the results of our Community Bank Study, we know community banks held 36 percent of the banking sector's small business loans as of year-end 2019, despite holding only 12 percent of banking sector assets.¹

Along these lines, community banks held almost one-third of commercial real estate (CRE) loans in 2019, and held a whopping 70 percent of farm loans at commercial banks.² We also saw that among the banks participating in the Paycheck Protection Program (PPP), community banks in particular had an outsized impact on their customers and communities.³

To say that community banks are often the financial lifeblood of minority, rural, and low- and moderate-income communities is not an exaggeration. Today, there are 608 counties in the United States where one or more community banks are the only FDIC-insured institutions physically present in the community.⁴

Despite their notable lending strengths and presence through our country, we know that many community banks struggle to remain competitive given technological changes and the demands of increasingly tech-savvy consumers. At the same time, many disadvantaged communities continue to struggle economically, including as a result of the disproportionate impact of the pandemic. And despite much improvement over the past decade, we continue to have 7 million unbanked households in the United States,⁵ translating into many more individuals who do not have a basic banking relationship.

Earlier in my tenure as Chairman, I spoke about how important recognizing, and adapting to, changes in technology and evolving consumer demands would be to our community banks' survival and their ability to thrive.⁶ Today, as we think about the regulatory system we want to build coming out of the pandemic, innovation will be even more critical to fostering financial inclusion and the competitiveness of our community banks . . . challenges that I believe are intertwined.

Let me describe how we are addressing these dual challenges head on.

Achieving inclusion

The FDIC is taking a multi-pronged approach to supporting financial inclusion, in ways I hope will make clear that this is not your grandmother's FDIC.

Mission-Driven Bank Fund

I was thrilled to announce last month the launch of the Mission-Driven Bank Fund. Based on my conversations with many MDIs and CDFIs early in my tenure, I learned that what these institutions need most is capital.

So I challenged the FDIC to come up with a framework that would match these banks with investors interested in the particular challenges and opportunities facing those banks and their communities. We are pleased that Microsoft and Truist Financial Corporation are the anchor investors in this new fund, and Discovery, Inc. will become a founding investor. Combined, these investors are pledging \$120 million to support mission-driven banks and the communities they serve, with additional investments expected in the coming months.

The fund will support MDIs and CDFIs to build size, scale, and capacity that will in turn allow them to provide affordable financial products and services to individuals and businesses. The FDIC will not manage the fund, contribute capital to the fund, or be involved in the fund's investment decisions.

Inclusion tech sprint

The FDIC is also using tech sprints run by our Office of Innovation, FDITECH, as a novel tool to tackle the gap in financial inclusion. A tech sprint brings together a diverse set of stakeholders in collaborative settings for a short period of time to focus intensely on specific challenges with implications for the FDIC or its regulated entities.

In June, we announced a tech sprint that was designed as a public challenge to banks, non-profits, private companies, and others to help us identify ways community banks can meet the needs of the unbanked in a cost-effective manner.⁷

Eight teams came together for a demonstration day on September 10, 2021; three winning teams were selected.⁸

Reexamining our impediments to employment

Thinking outside the box to support financial inclusion also requires us to assess where our rules may cause impediments in other ways. Section 19 of the Federal Deposit Insurance Act (FDI Act), for example, prohibits any person who has been convicted of certain types of crimes from working at a bank.

Banks can apply for the prior written consent of the FDIC, but doing so, of course, can be a significant impediment for the individuals who would otherwise be barred from employment.

Therefore, we took a fresh look at our policy implementing Section 19, to see where we should narrow the scope of the restrictions. In 2020, the FDIC issued a final rule that made several changes to narrow the scope of crimes subject to Section 19, enabling more individuals to work for banks without going through the Section 19 application process.

For example, the final rule excluded all offenses that have been expunged or sealed – rather than only certain types of expungements – from the scope of Section 19.⁹ The final rule also eliminated the five-year waiting period following a first “*de minimis*” offense, meaning individuals convicted of one minor offense no longer need to wait five years to work at a bank without an application to the FDIC.¹⁰

The changes themselves are not major, but nonetheless will have a major impact on individuals who no longer need to obtain written consent from the FDIC in order to work for a bank.

Fostering competitiveness

To say that the COVID-19 pandemic and the related personal and professional challenges have been unprecedented is to understate the momentous shift that many societies around the world have experienced over the past year. Those challenges have forced us to remember that old idiom that necessity is the mother of invention. We had to adjust everyday activities – from how we work to how we procure food – to protect ourselves and those around us. That rapid transformation amplified how critical innovation is, and showed us that when we must turn on a dime, we can.

I want to instill the same sense of urgency for adopting innovation to support the ability of community banks to compete and to thrive in the modern banking sector. As I have mentioned before, innovation for our community banks – and our financial system more broadly – is no longer a question of “shall we; shall we not” but “*how* can we do it because we must.”

Let me give you a sampling of how the FDIC is trying to do its part.

Modernizing Engagement

We are challenging external parties to develop tools for providing more timely and granular financial data to the FDIC on the health of the banking sector than what we get from the current Call Reports, all while making such reporting less burdensome for banks. Although Call Reports provide critical data to the FDIC, they do so with several months’ delay, thereby reducing the utility of the reporting to the FDIC.

To engage technology firms to help us solve this problem, we used a “rapid phased prototyping competition.” More than 30 technology firms were invited to participate in this competition.¹¹ Last month, we asked four participants to propose a proof of concept for their technologies.¹²

Our goal is to conduct a pilot program with up to nine FDIC-supervised institutions of various sizes and technological maturity to test the reporting technologies and determine their potential

to scale. Tools like those developed in this competition will help pave the way for more seamless and timely reporting of more granular data for banks that voluntarily choose to adopt the technology.

Partnerships with Fintechs

We have also been working on several initiatives to facilitate partnerships between fintechs and banks that can allow banks to reach new customers and offer new products.

At the end of 2020, we updated our brokered deposits regulations, the first substantial update in approximately 30 years, which removed regulatory hurdles to certain types of innovative partnerships between banks and fintechs.¹³

In addition, last year we asked stakeholders to comment on a groundbreaking approach to facilitate technology partnerships. The on-boarding and due diligence process can be costly and time consuming for both banks and their potential technology vendors. Our request for information proposed a public/private standard-setting organization to establish standards for due diligence of vendors and for the technologies they develop.¹⁴

Standardizing the due diligence process could fundamentally improve the ability of banks to partner with technology firms, while allowing the FDIC greater ability to engage in a horizontal review of different products, services, and risk management practices of third-party service providers.

We received many supportive comments in response to the request for information and continue to pursue the concept actively.¹⁵

Conclusion

It has been my goal as Chairman that the FDIC lay the foundation for the next chapter of banking by encouraging innovation that meets consumer demand, promotes community banking, reduces compliance burdens, and modernizes our supervision while increasing access to banking services. The importance of these goals has only been underscored by the upheaval caused by the pandemic.

Thank you all for joining us here, and thank you for taking part in these important conversations about the future of our community banks. I hope you can see that we at the FDIC are facing these issues head on. Our community banks and the Americans they serve across the country are counting on us to do so, and I hope to reiterate that they have a partner in the FDIC.

¹FDIC Community Bank Study (Dec. 2020), available at <https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-full.pdf> (PDF).

²*Id.*

³See FDIC, Quarterly Banking Profile: Third Quarter 2020, Volume 14, No. 4 (2020), at 31, available at <https://www.fdic.gov/bank/analytical/quarterly/2020-vol14-4/fdic-v14n4-3q2020.pdf> (PDF).

⁴FDIC Survey of Deposit Data, as of June 2021.

⁵See How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey, available at <https://www.fdic.gov/analysis/household-survey/2019report.pdf> (PDF).

⁶See Keynote Remarks by FDIC Chairman Jelena McWilliams on the "The Future of Banking" at The Federal Reserve Bank of St. Louis; St. Louis, Missouri (Oct. 1, 2019), available at <https://www.fdic.gov/news/speeches/2019/spoct0119.html>.

⁷See FDIC, FDITECH Launches Tech Sprint to Reach More Unbanked People, FIL-43-2021 (June 16, 2021), available at <https://www.fdic.gov/news/financial-institution-letters/2021/fil21043.html>.

⁸See FDIC, FDITECH Selects Eight Teams in Tech Sprint to Reach the Unbanked (Aug. 12, 2021), available at <https://www.fdic.gov/news/press-releases/2021/pr21071.html>; FDIC, FDITECH Selects Three Winning Teams in Tech Sprint to Reach the Unbanked (Sept. 13, 2021), available at <https://www.fdic.gov/news/press-releases/2021/pr21085.html>.

⁹See Statement by FDIC Chairman Jelena McWilliams on Final Rule: Section 19 of the FDI Act (July 24, 2020), available at <https://www.fdic.gov/news/speeches/2020/spjul2420.html>.

¹⁰*Id.*

¹¹See FDIC, FDIC Launches Competition to Modernize Bank Financial Reporting (June 30, 2020), available at <https://www.fdic.gov/news/press-releases/2020/pr20079.html>.

¹²See FDIC, FDIC Requests Four Companies to Submit Pilot Proposals in Next Phase of Rapid Phased Prototyping Competition (Aug. 9, 2021), available at <https://www.fdic.gov/news/press-releases/2021/pr21070.html>.

¹³See Unsafe and Unsound Banking Practices: Brokered Deposits and Interest Rate Restrictions, 86 Fed. Reg. 6742, (Jan. 22, 2021), available at <https://www.fdic.gov/news/board/2020/2020-12-15-notice-dis-a-fr.pdf> (PDF); Remarks by Jelena McWilliams, FDIC Chairman, "Brokered Deposits in the Fintech Age," Brookings Institution (Dec. 11, 2019), available at <https://www.fdic.gov/news/speeches/spdec1119.pdf> (PDF).

¹⁴See FDIC, FDIC Seeks Input on Voluntary Certification Program to Promote New Technologies (July 20, 2020), available at <https://www.fdic.gov/news/press-releases/2020/pr20083.html>.

¹⁵Comments received in response to the request for information are available at <https://www.fdic.gov/regulations/laws/federal/2020/2020-request-for-info-standard-setting-3064-za18.html>.